INTERNATIONAL MONETARY FUND

Staff Country Reports

August 1996

IMF Staff Country Report No. 96/68

Malawi—Recent Economic Developments

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MALAWI

Recent Economic Developments

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Approved by the African Department

June 4, 1996

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Malawi - Basic Data

Area	118,500 square kilometers
Population: Total (1995)	10 million
Growth rate	3.5 percent per annum
GDP per capita (1995)	US\$135

IMF Position (March 31, 1996)

Quota	SDR 50.9 million
Fund holdings of Malawi kwacha	SDR 61.4 million
Reserve position in Fund	SDR 2.2 million
Outstanding purchases and loans	SDR 74.3 million
Exchange rate	US\$1 = MK 15.3

	1991	1992	1993	1994	1995 Prel.
GDP at 1978 factor cost (in millions of Malawi kwacha)	1,055.8	972.2	1,076.9	952.1	1,037.7
In percent of total:					
Agriculture	34.8	28.3	39.1	31.3	36.8
Manufacturing	13.0	14.6	11.8	13.7	13.4
Government	14.2	15.9	14.3	15.5	13.7
Other	38.0	41.2	34.8	39.5	36.1
GDP at current market prices (in millions of Malawi kwacha)	6,105.5	6,693.8	8,942.2	11,209.3	20,641.3
Consumption	5,350.1	6,684.6	9,318.8	11,482.7	19,960.0
Investment	1,230.0	1,257.0	1,090.0	1,483.0	3,054.9
Imports of goods and nonfactor services	-1,913.3	-2,751.1	-2,937.1	-5,131.1	-8,974.9
Exports of goods and nonfactor services	1,438.7	1,503.3	1,470.5	3,374.7	6,601.2

Prices and exchange rate

(Percent change unless otherwise specified)

GDP deflator	14.1	18.3	21.8	39.7	68.1
Consumer prices (annual average)	8.2	23.2	22.8	34.7	83.1
Consumer prices (end of period)	12.5	36.1	18.3	66.0	75.0
Exchange rate (kwacha per US dollar, annual average)	2.8	3.6	4.4	8.7	15.3

Central government finance 1/

(In percent of GDP)

Total revenue and grants	22.2	20.7	20.1	26.9	27.7
Total expenditure	25.2	32.8	25.5	42.0	33.3
Overall deficit (excluding grants)	-6.3	-14.4	-8.4	-25.8	-14.2
Overall deficit (including grants)	-3.0	-12.1	-5.4	-15.1	-5.7
Financing	3.0	12.1	5.4	15.1	5.7
Foreign	3.2	4.9	6.9	7.6	2.0
Domestic	-0.2	7.1	-1.5	7.5	3.7

Money and credit (end of period) 1 1/2/

(Annual percentage change)

Net foreign assets	-13.4	-40.5	25.7	-53.9	39.4
Net domestic assets	31.6	68.6	23.7	113.5	-0.5
Of which: credit to the Government	-6.7	59.1	-12.6	42.3	-5.0
Money and quasi-money (M2)	18.2	28.0	41.5	59.6	38.9

Balance of payments

(In millions of U.S. dollars)

Exports, f.o.b.	475.7	397.3	317.2	372.4	421.2
Imports, c.i.f.	-615.4	-712.5	-627.4	-554.8	-554.6
Trade balance	-139.7	-315.1	-310.2	-182.4	-133.3
Current account					
Excluding official transfers and interest payments	-212.6	-336.6	-310.1	-192.9	-162.1
Including official transfers and interest payments	-190.3	-224.5	-225.2	-119.2	-46.6
Capital account (net)	199.1	82.7	258.3	98.7	138.6
Overall balance	8.8	-141.8	33.1	-20.5	92.1
Gross official foreign reserves	140.5	47.0	54.3	35.9	105.9
In months of imports of goods and nonfactor services	2.7	0.8	1.0	0.7	2.2

Sources: Data provided by the Malawian authorities; and staff estimates.

1/ Fiscal year beginning April 1.

2/ Twelve-month change as percent of beginning period of money stock.

I. Introduction

After three years of good performance, Malawi's economy began to deteriorate in late 1991 as a result of a series of exogenous shocks. These shocks included two major droughts, a severe weakening in the terms of trade, and a suspension of donor non-humanitarian aid due to concern over governance; as a consequence, the average real GDP growth fell from 6 percent a year in 1989-91 to minus 3 percent a year in 1992-94 (Chart 1). Savings and investment also fell considerably. At the same time, the improvement in the Government's financial position that had taken place through 1991 was reversed, leading to a major expansion of liquidity and a progressive acceleration of inflation. The latter also reflected the effect on prices of food shortages caused by the recurrent droughts, the significant adjustments in administered prices, and a large depreciation of the Malawi kwacha, especially after the floatation of the currency in February 1994. As a result of the external shocks and inadequate policy adjustments, the external accounts deteriorated markedly.

To address the increasingly deteriorating economic and financial conditions, the authorities adopted an adjustment program during 1994. However, their efforts were hampered by the unusually large magnitude of exogenous shocks, uncertainties related to the political transition to a multiparty system, as well as weak institutional capacity. In particular, in the run up to the first multiparty election in May 1994, there was a major breakdown of expenditure control, leading to an unprecedented increase in government outlays, including large wage increases for civil servants.

In early 1995, Malawi redoubled its efforts by adopting a comprehensive program that aimed at (a) a recovery in real GDP growth to an average of more than 4.5 percent a year during 1996-98; (b) a sharp deceleration in the rate of annual inflation, to 5 percent by the end of 1998; (c) a reduction in domestic and external imbalances to attain a more sustainable balance of payments position by 1998; and (d) the accommodation of pressing social needs within the constraint of fiscal sustainability. To achieve these objectives, the program included measures to attain a major fiscal adjustment and macroeconomic stabilization, and structural reforms in the area of civil service, privatization, agricultural production and marketing arrangements, and trade and exchange system.

Real GDP growth rebounded to 9 percent in 1995, reflecting better weather conditions as well as improved incentives in the agricultural area, particularly to smallholder farmers. There also were a sharp turnaround in the fiscal policy stance and a tightening of monetary conditions that resulted in a considerable improvement in the external position. Although inflation remained very high until January 1996, due mainly to increases in food prices as a result of a below average harvest and the liberalization of maize marketing, it decelerated considerably in February-April 1996.

Significant progress has also been made with respect to structural reforms. The liberalization of agricultural marketing in early 1995 was of particular significance as it included the elimination of the monopsony

position of ADMARC in the market for smallholder production (maize, tobacco, etc.). Civil service reforms gained momentum with the discharge of about 20,000 nonestablished civil servants during April-September 1995 and the completion of a civil service census in late 1995; the results of the census will serve as the basis for further reforms to restructure the civil service and the Government's establishment. A legal and institutional framework was established for privatization, and the Government completed the preparation of a program to privatize/divest up to 90 public enterprises. Other structural reforms included the elimination of the fertilizer subsidy and the decontrol of fertilizer prices, the introduction of a book-entry system for treasury bills, the eliminations of various import and export licensing requirements, and the acceptance of the obligations of Article VIII of the Fund's Articles of Agreements in December 1995.

II. The Domestic Economy

The Malawian economy is largely based on agriculture. This sector accounts for about 35 percent of GDP, employs over 80 percent of the labor force, and produces the bulk of the country's exports. It had been characterized by a dual structure consisting of a few thousand commercially oriented estates and a large smallholder sector of nearly 2 million farmers who are mainly engaged in subsistence production, but over the past decade an intermediate subsector of about 30,000 to 40,000 commercially oriented smallholders has emerged. Maize, the staple food, accounts for 80 percent of the cultivated land in the smallholder sector. The main agricultural export crop is tobacco, followed by tea, sugar, and coffee.

The other key sectors in the economy are government services (13.7 percent of GDP in 1995), manufacturing (13.4 percent), and distribution (11.1 percent). Both manufacturing and distribution are closely linked to agriculture. Malawi is heavily dependent on foreign trade with the value of exports and imports on average exceeding 60 percent of the overall GDP during 1991-95.

1. Real sector developments

a. Production

After several years of steady growth, Malawi's economy was affected by a series of droughts starting in late 1991. As a result, average real GDP growth fell from 6 percent a year in 1989-91 to minus 3 percent a year in 1992-94. With smallholder production accounting for a quarter of GDP, much of the change in real GDP during the period was accounted for by a fall in smallholder production that is particularly susceptible to weather fluctuations. In contrast, real growth in the estate sector, which accounts for about 10 percent of GDP, is less susceptible to changes in the weather conditions because of access to better land and inputs (Table 1).

Real GDP growth rose markedly in 1995 (9 percent) reflecting a recovery from the drought of the previous year as well as the supply response to improved incentives, particularly to smallholder farmers, that stemmed from the liberalization of agricultural production and marketing arrangements (see Section 2 below).

Sectors with links to agriculture, such as distribution, manufacturing, and transport and communication, have declined or stagnated over the period 1991-95, mainly on account of the drought. Distribution and transport and communication declined by 11-13 percent in real terms from 1991 to 1995, while manufacturing production was flat over the period. The only non-agricultural sector which recorded a significant increase in production was electricity and water which, measured at the 1978 constant prices, grew by an average of 6 percent a year during 1991-95.

Monetary GDP, which excludes smallholder agricultural output that is self-consumed, has risen as a share of overall GDP from 66.1 percent in

1980-85 to 69.1 percent in 1991-95 (Table 2). This development reflects the expansion of the non-agricultural sector, the increase in production by the estates, and the impact of the recent liberalization of agricultural marketing and production which has led smallholder farmers to raise their production of cash crops.

b. Saving and investment

National saving rates fell sharply, from an annual average of 13.2 percent of GDP in 1986-90 to 5.8 percent in 1991-94, as a result of the severe economic shocks and macroeconomic instability (Table 4). About two-thirds of this decline was due to a shift in public saving from 2.4 percent of GDP a year in 1986-90 to minus 2.7 percent a year in 1991-94 as a result of a major increase in current expenditure; average private saving declined from 10.8 percent of GDP to 8.5 percent of GDP during the period, reflecting the impact of droughts. Domestic saving, which excludes net factor income and net transfers, also showed a similar trend, falling from an average of 9.3 percent of GDP in 1986-90 to just over 1 percent in 1991-94. In contrast, foreign savings, defined as the current account including official transfers, increased from an average of 4.2 percent of GDP in 1986-90 to 10 percent of GDP in 1991-94.

With the recovery in economic activity in 1995, national savings are estimated to have risen from 4.0 percent of GDP in 1994 to 11.3 percent of GDP. Most of the increase in national savings came from an increase of domestic savings which rose from minus 2.4 percent of GDP in 1994 to 3.3 percent of GDP in 1995. The increase in domestic savings in turn was mainly attributable to an improvement in public savings from minus 6.9 percent of GDP in 1994 to 0.2 percent of GDP in 1995. The higher savings in 1995 have enabled domestic private investment to increase significantly.

Gross investment fell during 1991-94 from 20 percent of GDP in 1991 to 12-13 percent in 1993-94. While public investment remained fairly stable at around 8-9 percent of GDP over the period, private fixed capital formation had declined from 9 percent in 1991 to an average of 2 percent in 1993-94. The reasons behind this decline included the high interest rates for the non-food sectors of the economy (see Section V below), low investor confidence on account of macroeconomic instability, the recurrent drought, uncertainties during political transition to democracy, and other external shocks. This decline in investment has been reversed in the past year, with fixed capital formation rising from 11 percent of GDP in 1994 to 13.6 percent of GDP in 1995. Whereas public investment declined slightly, private investment rose significantly from 1.8 percent of GDP in 1994 to 4.7 percent of GDP in 1995.

2. Sectoral developments

a. Agriculture

In recent years, important progress has been made in liberalizing agricultural production and marketing as restrictions on smallholder production of certain cash crops and on private traders in crop marketing were increasingly relaxed. By 1995, all restrictions on the domestic trading of agricultural commodities were lifted, ADMARC's monopsony position in the market for smallholder production was eliminated, and thus all agricultural output prices are now entirely market determined. With the removal of licensing requirements on exporting beans and groundnuts, all crops, except maize, can be freely exported.

In the case of maize, however, a price band of MK 1.25-2.5 per kilogram replaced the system of fixed producer and consumer prices in early 1995, and resulted in an initial increase of 74 percent in the producer price at the lower end of the band. Prices can move freely within this band. ADMARC's role is to defend the floor and ceiling prices set by the Government. Thus, ADMARC has moved from being the sole player in the market for smallholder production to the buyer/seller of last resort.

In principle, under the Memorandum of Understanding agreed between the Government and ADMARC, the latter as a parastatal organization was supposed to be reimbursed by the Government for any financial losses incurred in defending the floor and the ceiling prices. In practice, the policy did not work as well as intended because ADMARC was asked to play a role incompatible with its own financial interests. Wary about financial losses (as it always occurred historically) and not being compensated by the Government, ADMARC did not use much of its financial resources on maize trading, nor did it move into the market in a timely fashion. As a result, a significant amount of maize was purchased by private traders during the early part of the 1995 marketing season at prices as low as MK 0.7-0.8 per kilogram, substantially below the floor price. Subsequently, ADMARC bought 86,000 metric tons of maize, compared with average purchases of 200,000 metric tons in previous years, but this amount was inadequate to stabilize the maize price during the post-season. Moreover, ADMARC was reluctant to adjust upward its selling price of MK 1.80 per kilogram even within the price band due to concern about political repercussions. As a result of these developments, half way into the post-season, the price of maize in some areas went as high as MK 7 per kilogram. Despite acute shortage in the market, ADMARC only started to sell meaningful amounts of maize after the Government decided to raise the maize price to the upper end of the price band (MK 2.5 per kg) in December 1995.

The market for inputs was liberalized in 1994, but private traders have held back because of the cumbersome licensing and approval procedures and high transaction costs. To improve farmer's access to inputs and new technologies, the Government has removed the licensing requirement for importers and sellers of fertilizers, eliminated fertilizers subsidies, and relinquished control over introducing new seed varieties. Private traders

are now free to trade in all seeds including hybrid maize and tobacco. In an effort to help peasant farmers to recover from the droughts, the Government has, with assistance from donors, implemented an agricultural inputs program. During 1994/95, 23,000 metric tons of fertilizer and 3,500 metric tons of hybrid seed were distributed free of charge to some 730,000 households. This program is estimated to have increased maize production by some 200,000 metric tons in that year.

The production and marketing of tobacco, Malawi's main export commodity, has also undergone some major changes. In the 1993/94 season, tobacco sales at the auction floors were conducted in U.S. dollars following the floatation of the kwacha in February 1994. With the depreciation of the Malawi kwacha and the effect of higher world prices, the average tobacco auction prices in local currency in 1995 more than tripled from their levels in 1991. This development was also aided by the decision in early 1995 to use the Reserve Bank of Malawi dollar/kwacha exchange rate, displayed daily at the tobacco auction sites. In February 1995, smallholders were permitted to sell their tobacco on the auction floor or to private traders in competition with ADMARC. In the past few years, the Government has expanded the smallholder burley tobacco quota system and intermediate buyers program.

Notwithstanding the above agricultural liberalization measures, due to poor infrastructure and high transportation costs in the remote areas in the countryside, there was concern that private traders may not move into these regions. Thus, in the foreseeable future it is likely that ADMARC will continue to play an important, albeit declining, role in distributing agricultural inputs as well as marketing smallholder production.

Overall, farmers, particularly smallholders, have benefitted from these reforms through diversification into other agricultural and non-agricultural activities and a reduced vulnerability to the effects of drought, especially with the increased (but still limited) use of hybrid seeds. Smallholder production of cash crops has increased significantly in response to the removal of production restrictions (Table 5). All this has led to an improvement in their household incomes. Another visible result of these reforms has been the increased presence of private traders, including in the market for maize which previously was dominated by ADMARC. Instead of selling and buying directly from ADMARC like in the past, farmers are holding on to more of their own stocks for future consumption and selling more to private traders. While the market for maize is still thin, as indicated by the large margin between producer and consumer prices, it is expected to develop rapidly with new entrants.

The production of maize experienced major shortfalls in three out of the five-year period 1990/91 - 1994/95 on account of the recurring drought. In 1991/92, smallholder production of maize fell by 60 percent to 657,000 metric tons as a result of a major drought; with the above normal rainfall in the following year, it recovered to a record high of 2,034,000 metric tons but fell again in 1993/94 to 817,000 metric tons. In 1994/95, improved weather conditions helped the production to rise to 1,328,000 metric tons, although still below its normal level of 1.5-1.6 million metric tons because

weather conditions had not returned to normal. The increase in smallholder sector output in 1994/95 also reflected the benefits of a free inputs program that was implemented with donors assistance to help alleviate the impacts of the drought.

These large fluctuations in maize production reveal the vulnerability of smallholder farmers to droughts. The large share of the low yielding and drought sensitive maize grown, the limited use of fertilizers, and poor irrigation facilities have rendered small farmers extremely vulnerable to adverse weather conditions. Hybrid maize, which is high yielding and more drought resistant, accounts for only 28 percent of the maize planted in Malawi, even after including the large estates, which use this type of seed more intensively than smallholders. As the smallholder farmers increase their production of cash crops, receive more income, and have more access to credit (see Section V), they will be able to afford more fertilizer, hybrid maize seeds, and better irrigation facilities. This would reduce their vulnerability to drought and raise their yields which currently are below the rest of the region.

Tobacco is the main export commodity of Malawi, accounting for over 70 percent of the country's exports. Mainly in response to the liberalization of the burley tobacco quota system and higher prices, smallholder production of tobacco has risen rapidly, from 18,700 metric tons in 1991 to an estimated 35,400 metric tons in 1995. The composition of smallholder tobacco production has also changed significantly, as farmers shifted away from the less profitable types of tobacco--such as flue cure--to burley tobacco. As shown in Table 5, the marketed production of burley tobacco has risen significantly from 70,100 metric tons in 1991 to 101,000 metric tons in 1995, while that of other types of tobacco has remained steady or has even fallen. Estate tobacco production has shown signs of decline in recent years as it became more profitable for estates to lease land to smallholder farmers while concentrating on tobacco marketing.

Tea is Malawi's second largest export commodity and is produced mainly by the estate sector. Tea production has fluctuated widely due to the drought conditions. The marketed production of tea fell 31 percent to 28,100 metric tons in 1992 on account of the drought, recovered to 40,000 metric tons in 1993, but fell again, to 30,000-35,000 metric tons in 1994-95. Sugar is produced by only two estates: SUCOMA and Dwangwa. Except for a poor crop in 1993, sugar production has increased from 191,100 metric tons in 1991 to 224,000 metric tons in 1995, mainly because it is grown on irrigated land. In September 1994, domestic sugar prices were liberalized helping make sugar more readily available in the markets. In 1995, the LONHRO Sugar Corporation started to encourage smallholder farmers to produce sugar by providing them with irrigated land, and as a result, smallholder farmers produced 60,000 tons of sugar cane. Sugar exports received a boost in 1995, when the United States renewed its quota of 13,000 metric tons and Portugal established a new quota allocation of 16,500 metric tons--the second largest quota from the European Union.

Cotton is grown by smallholders and is an important input for the textile industry. Cotton production fell sharply in 1994 due to decreases in planted acreage and yield. Smallholder farmers have been shifting away from cotton production as a result of a fall in cotton prices and in ADMARC guaranteed purchases. Except for 1992, smallholder production of groundnuts has remained at around 30,000 metric tons a year.

b. Industrial production

Industry in Malawi is made up mainly of the processing of agricultural produce, textiles, building and construction materials, and electricity and water. About 85 percent of industrial activity is accounted for by manufacturing, and nearly a quarter of industrial output is exported.

Industrial production in Malawi has stagnated over the period 1991 to 1995. The total index of industrial production declined from 138.6 in 1991 to an estimated level of 125.4 in 1995 (Table 7). Growth in manufacturing production has been stagnant in recent years due to foreign exchange constraints, increasing competition from imports as a result of lower tariffs, and the disruption of transportation routes. In addition, high inflation, limited access to land for industrial uses, delays in government approval of projects, and the high level of economic concentration have contributed to inefficiencies and slow industrial growth.

Total manufacturing output shrank by 14 percent as most domestic manufactured goods registered a decline during 1991-95. In particular, building and construction fell by over 30 percent over the period, and the production of footwear, clothing and textiles shrank by about 50 percent, mainly due to strong competition from the market for second hand clothing. With the exception of the two drought years 1992 and 1994, exports of manufactured goods have remained virtually unchanged.

Electricity and water were the only other industrial outputs to have expanded during 1991-1995, by an average of 4 percent growth a year. ^{1/} This increase reflects the growing coverage of electricity services and the expansion program being carried out by the Blantyre and Lilongwe Water Boards to meet the growing demand for water in the cities.

c. Transportation

Malawi's heavy dependence on neighboring countries for access to sea ports has been a major constraint on economic growth. The most direct routes to the sea via Beira and Nacala have been interrupted since the late 1970s by the civil war in Mozambique; they were closed completely in 1985 and were reopened with limited service in 1989. As a result, much of Malawi's trade was diverted to Durban (South Africa) and Dar Es Salaam (Tanzania). This diversion of traffic increased significantly the transport

^{1/} Electricity in Malawi is provided by the Electricity Supply Commission (ESCOM) while water is supplied by the local water boards.

distances (to 1,789 km and 2,667 km, respectively) and raised the transport costs to an estimated 40 percent of total import costs compared with 25 percent when the Nacala and Beira lines were fully operational.

However, this trade diversion is being reversed with peace in Mozambique and the joint efforts with Malawi to rehabilitate the Nacala railroad. The poor condition of the 77 km Mozambique section of the Nacala corridor between Entralagos and Cuamba represents a major bottleneck for this route. Malawi Railways, the state owned public enterprise managing the country's railways, has worked with the Mozambican authorities on the rehabilitation of this key section and, as a result of the improvements, the trip time from Blantyre to Nacala has been cut down by more than a half--to 30 hours--in 1995. There have also been discussions on extending the Nacala line westward across Malawi to the Tete region in Mozambique to exploit the mineral resources that have been discovered; such a development would significantly improve this railway.

3. Employment and prices

a. Employment

Data on wages and employment are limited and outdated, with the last employment survey done in 1992. From 1990 to 1992, formal employment increased steadily, with the ratio between the private and government sectors being roughly four to one. ^{1/} Agriculture, forestry and fishing remained the dominant employment sector accounting for around 50 percent of total formal employment. Manufacturing recorded steady growth in the number of paid employees during 1990-92, and accounted for 13 percent of employment. However, wholesale and retail trade, and hotels and restaurants registered a drop in paid employment over that period.

b. Prices

The National Statistics Office (NSO) compiles a monthly consumer price index (CPI) which is based on the retail prices of six categories of goods from both urban and rural areas. The weights are based on a household expenditure survey conducted every five years, with the last one in 1991/92. Food is the largest component of the CPI (55.5 percent), clothing and footwear is the next largest (11.7 percent); other components include housing (9.6 percent), household operation (8.4 percent), transport (6.5 percent), miscellaneous items (5.6 percent), and beverages and tobacco (2.7 percent).

Inflation has increased sharply over the past five years, rising from an annual average of 8.2 percent in 1991 to 83.1 percent in 1995 (Table 8). A close look at the breakdown of the composite price index reveals that the rate of increases in food prices was consistently higher than that in nonfood prices. The 12-month inflation rate at December 1994 was 75 percent

^{1/} See SM/95/89.

for food and 52 percent for nonfood items; they were 89 percent and 51 percent, respectively, at December 1995.

The main reasons behind this surge in inflation were the scarcity in food supply caused by the recurring droughts and the excessive liquidity expansion associated with large expenditure overruns and large fiscal deficits, particularly during the run-up to the first multi-party elections in 1994. The depreciation of the Kwacha during 1994 and large adjustments in administered prices, including those of petroleum, fertilizer, electricity, and water, also contributed significantly to recorded inflation. From end-1993 to end-1994, the nominal exchange rate depreciated by 70 percent from MK 4.9 per U.S. dollar to MK 15.3 per U.S. dollar. In January 1995, all fuel subsidies were removed, and prices were increased as follows: petrol (27.5 percent, after a 67 percent increase in December 1994), diesel (85.3 percent), and kerosene (131 percent). In August 1995, fertilizer prices were raised by 170 percent to 300 percent as a result of the removal of the subsidy and the increase in the international price of urea. There also have been several tariff rate increases on electricity and water: in 1995, ESCOM raised electricity rates twice, by 40 percent in January and 45 percent in July; the Blantyre Water Board also raised their tariff rates by 40 percent and 30 percent in July and December 1995, respectively.

Although tightened financial policies helped bring down inflation from a monthly high of 11 percent in October 1994 to 1.5 percent in August 1995, inflation rebounded beginning in September, mainly due to increases in food prices following the liberalization of maize marketing and the impact of maize shortages. By end 1995, the 12-month inflation rate reached 75 percent. Inflation in 1995 may have been overstated because of a bias in the way the National Statistics Office of Malawi (NSO) calculates the CPI. A closer look at the data reveals that most of the increase in inflation in the latter part of 1995 was due to the rise in food prices, in particular for maize which makes up about 28 percent of the CPI basket of goods. The CPI, as compiled by the NSO, includes maize prices from a handful of regional markets in which prices rose rapidly, but excludes official maize sold by ADMARC which accounted for a majority of the maize traded in the country. Starting around September 1995, the retail price for maize jumped markedly in several regional markets reflecting the perceived scarcity of grain. For example, in the northern rural region, the average maize price jumped from MK 1.40 per kg in July 1995 to MK 4.14 per kg in December 1995--an increase of 195 percent--while the ADMARC price rose from MK 1.8 per kg to MK 2.5 per kg early December.

With good harvest expected in Malawi as well as in the region in 1996, maize prices are projected to fall significantly during the course of the year. Indeed, the monthly consumer price inflation fell sharply to an average of 1.4 percent during February-April 1996, largely on account of a slowdown in the increase of the price of maize.

III. Public Finances

1. The structure of the government budget

The Central Government in Malawi is defined as those government units covered by the general budget, which include the Presidency, the National Assembly, Judiciary, Office of the President and Cabinet, and ministries and departments. The budget is divided into two parts--recurrent and development expenditure; the fiscal year runs from April 1 to March 31. All tax and nontax revenue and the balance of payments grant receipts are registered in the revenue account, which is used to finance the recurrent expenditure that supports the ongoing administrative and other functions of the Government. The Ministry of Economic Planning and Development (EP&D) coordinates and formulates the development budget. Outlays for development expenditure, mostly capital expenditure and net lending, are financed from the Development Fund, which comprises a budget allocation, proceeds from project-related foreign grants, short-term loans, and long-term borrowing. All expenditure and revenue require parliamentary approval except for statutory expenditure, which includes public debt service, pensions, and the salaries of the President and the Judiciary.

2. Overall fiscal developments during 1991/92-1995/96

After sustained improvement during the five-year period through 1991/92, the government financial position deteriorated considerably during 1992/93-1994/95, with the budget deficit before grants rising sharply from 6.3 percent of GDP in 1991/92 to 14.4 percent in 1992/93 and further to an average of over 16 percent during 1993/94-1994/95 (Table 9). While major recurrent droughts were the main reason for the worsening of public finances, inadequate expenditure control and lower tax collections, due to both lower tax rates and weak tax administration, were also important contributing factors. With improved revenue collection and, more importantly, major effort to cut and control expenditure, the fiscal deficit after grants improved markedly in 1995 to 5.7 percent of GDP.

As illustrated in Table 9, the deterioration in public finances in 1992/93 was primarily due to an increase in expenditure. Whereas revenue and grants declined slightly, expenditure increased by over 7.5 percentage points of GDP, much of which were drought-related outlays in connection with the government's efforts to deal with the major drought in 1991/92. During the same period, there were major social-political unrests in the form of demonstrations and strikes, leading to a 68 percent wage increase for the civil service. In the absence of an effective expenditure system, large unidentified expenditure also emerged. Furthermore, due to donors' concerns with governance, all non-humanitarian balance of payments assistance support was cut off in May 1992. Consequently, the fiscal deficit after grants rose from 3 percent of GDP in 1991/92 to 12 percent in 1992/93, resulting in large bank financing and rapid growth in liquidity.

With improved weather conditions in the 1992/93 crop season, the fiscal conditions improved markedly in 1993/94. Despite a continued drop in

domestic revenue, the budget deficit before grants fell to 8.4 percent of GDP in 1993/94, largely reflecting a reduction of drought-related outlays equivalent to some 5 percentage points of GDP. Development expenditure also declined significantly, along with other recurrent spending and the civil service wage bill. A tightening in expenditure control also helped reduce unidentified expenditure. The improved fiscal conditions, together with an increase in donor balance of payments support, allowed the Government to repay the banking system the equivalent of 1.5 percentage points of GDP in 1993/94.

However, the improvement in budgetary conditions was short-lived. Toward the end of 1993/94 and in the period leading up to the elections in May 1994, political pressures, exacerbated by yet another drought, led to a major breakdown in expenditure control. Unprecedented growth in spending during the first quarter of 1994/95 (April/June) alone contributed to bank financing of MK 670 million (4.9 percent of GDP). In light of the rapidly deteriorating financial conditions, the new Government, which took office in late May, put together an adjustment program to enhance revenue collection, reduce expenditure, and improve expenditure control.

Despite these efforts, the intended fiscal adjustment did not materialize mainly due to difficulties in customs collection and expenditure control. Revenue continued its downward trend, falling to just over 16 percent of GDP in 1994/95, owing to inadequate collection of domestic tax and nontax revenue and a major shortfall of customs duties and import surtax. ^{1/} Meanwhile, expenditure reached an unprecedented 42.3 percent of GDP, exceeding the level in the previous year by a large margin in every category. As a result, the deficit before grants rose to almost 26 percent of GDP in 1994/95 and the deficit after grants to 15 percent. Despite generous donor support, both in terms of grants and loan financing, total domestic borrowing by the Government rose to 7.5 percent of GDP.

Faced with a continued deterioration in public finances, the Malawi Government redoubled its efforts in early 1995, by adopting strong remedial measures in the context of the 1995/96 budget, including new revenue measures yielding up to 3 percent of GDP and considerable steps to strengthen expenditure control. Important measures were also taken to improve tax administration such as a major program to reform the customs and excise department that was assisted by an IMF long-term customs advisor. More significant, however, were the implementation of a cash budget system and the introduction of an improved local purchasing order (LPO) tracking system to ensure that the purchases of goods and services by ministries and departments were in line with their expenditure allocation.

^{1/} The surtax was originally a sales tax on the ex-factory production price of local manufactures and on the c.i.f. import price (including import duties) of imported manufactures. It was converted into a credit method value-added tax in 1989/90, applicable to all manufacturing activities and on the imports of manufactured goods. The surtax has in recent years been extended to cover certain raw material imports and services.

As a result, fiscal performance improved considerably in 1995/96. With strong customs revenues and increased collection of company tax, non-PAYE individual income tax, and nontax fees and charges, revenue rose to more than 19 percent of GDP in 1995/96. At the same time, expenditure was contained within the targeted level, resulting in a reduction of the overall deficit before grants from 25.8 percent of GDP in 1994/95 to 14.2 percent in 1995/96. This, together with substantial donor grants, led to a decline in the deficit after grants from 15 percent of GDP in 1994/95 to 5.7 percent in 1995/96. However, due to a significant shortfall in external financing, recourse to domestic (nonbank) financing continued in a large scale. By the end of March 1996 domestic debt had increased to MK 3.9 billion, compared with MK 2.4 billion a year earlier. Measured as a percentage of GDP, however, it fell from 17.6 percent to 16.8 percent, reflecting a one-time increase in nonmonetary GDP that resulted from the one-off upward adjustment of the price of maize (about 80 percent of which is consumed in the subsistence sector) in the later part of 1995 and early 1996, following the liberalization of maize marketing.

3. Tax reform, tax administration, and revenue trend

a. Tax reform

The Malawi tax system has undergone continuous reform in the past decade. The Government's goal is to create an efficient and equitable tax structure that is conducive to trade, investment, and growth, while maintaining adequate revenue levels. Major reforms in the second half of 1980s, effectively transformed the surtax to a value-added type of tax on manufactured and import goods and rationalized some aspects of the income taxes on individuals and corporations. One salient feature of the reforms during 1990/91-1994/95 was a consistent reduction in tax rates, including those of the surtax, personal and corporate income taxes, and import duties.

In an attempt to offset the revenue impact of the above rate reductions, the Government of Malawi adopted measures to broaden the tax base. These measures included extending the surtax to certain services and some previously exempt raw materials, expanding dutiable import items to include jet fuel and other petroleum products, and including the fringe benefits as taxable income. In addition, the tax structure was rationalized by eliminating surtax suspensions, reducing the list of inputs which receive tax credit, and limiting the eligibility of bonded warehouses and the deductibility of income tax, all of which were easy targets for abuse. However, the above measures, were insufficient to offset the revenue impact of the reduction in the tax rates, and the expected improvement in tax administration did not materialize (see below). As a consequence, tax revenue as a percentage of GDP declined from 16.3 percent in 1991/92 to 14.7 percent in 1994/95.

Faced with sustained revenue losses, major tax policy changes were introduced in 1995/96 to boost revenue. The most important measures were the imposition of a temporary 10 percent levy on tobacco, sugar, and tea exports, an increase of corporate income tax from 35 percent to 38 percent,

Malawi: Major tax reforms in 1990/91-1994/95

	<u>1990/91</u>	<u>1994/95</u>
	<u>(Percent)</u>	
Indirect taxes		
Standard surtax	35	20
Surtax on luxury goods	55 and 85	20 <u>1/</u>
Surtax on imported goods competing with domestic goods	50 and 75	20
Maximum general import duty rate	45	40
Direct taxes		
Personal income tax	50	35
Poll and graduated taxes	Applicable	Eliminated
Standard corporate income tax	40	35

1/ Except for a few luxury items where the applicable rates remained at 40-45 percent.

and a drought levy of 1-3 percent on personal income depending on the brackets (see Appendix). In addition, there were numerous adjustments of the surtax, excise tax and import duty rates, as well as adjustments of nontax fees and charges.

b. Tax administration

In conjunction with the tax reforms during 1990/91-1994/95, measures were taken to improve the tax administration system and to strengthen procedures for revenue collection. As mentioned above, the tax structure was also rationalized to promote compliance. Despite these efforts, tax administration appeared to have weakened during the period. A low point was reached in 1994 when a major depreciation of the kwacha hardly had an impact on customs revenue because of significant undervaluation of imports, inadequate inspection and border patrol, lack of enforcement, as well as fraud and corruption.

Against this background, Malawi launched a major customs reform program in 1995/96, with assistance from the IMF, the UNDP, and ODA. The program included (i) a number of short-term revenue enhancement measures, such as disallowing installment and deferred payments, prohibiting standing delivery orders to eliminate the clearance of goods without presentation and payment of a bill of entry (except those specific cases defined in the Customs Act), and reconciliation between bill of entry and the Clean Report of Findings (CRF) issued by the preshipment inspection agency SGS; (ii) the strengthening of enforcement activities, such as using daily RBM exchange rates for valuation, closing down some of the large number of bonded

warehouses, increasing penalties for noncompliance, improving refund surveillance and auditing, and removing corrupt officers; (iii) the introduction of an enhanced preshipment inspection scheme; (iv) the implementation of management information and revenue reporting systems; (v) a pilot project of an automated transit control system tracking goods transported in and out of Malawi; (vi) the initiation of an ASYCUDA system for import and export declaration processing; and (vii) a technical training program.

Significant progress has been made in implementing the above reform measures, which have resulted in a considerable improvement in revenue collection in the second half of 1995/96. Nevertheless, owing to lack of financial resources, inadequate physical infrastructure and staffing constraints, the overall capacity of the Customs and Excise Department and the Income Tax Department remains weak. In this regard, the Government has prepared an infrastructure strategy paper to revamp the organizational structure of the two tax collection departments and to upgrade the physical and human infrastructure. In addition, a feasibility study has been completed to establish an autonomous national revenue authority by 1997. The 1996/97 budget also allocated more funding to the Income Tax and the Customs and Excise Departments to allow better staffing, training, and equipment in order to increase their capacity to enforce tax compliance while reducing tax arrears, corruption, and fraud.

c. Revenue trend

Domestic revenue as a share of GDP declined steadily from 19.6 percent in 1990/91 to just over 16 percent in 1994/95. The decline is almost equally distributed between tax and nontax revenue. While personal income tax revenue remained relatively constant in terms of GDP, corporate tax revenue decreased considerably due to both a decline in the corporate income tax rate and generous tax concessions and deductions for certain types of investments (Table 10). Reversing the trend in the second half of the 1980s, taxes on goods and services also declined significantly as a result of the progressive reduction in surtax rates, which was only partially offset by a modest expansion of tax base. Despite year-to-year fluctuations in line with import levels, import duties had been largely stable at around 3-3.5 percent of GDP. With regard to nontax revenue, most of the decline was due to a reduction in departmental receipts, such as fees and charges, whose values were eroded by high inflation.

In contrast to the earlier years, revenue performed well in 1995/96. Whereas PAYE (pay-as-you-earn deductions) fell as a percentage of GDP due to a combination of stagnant earnings and arrears accumulated by some line ministries and departments, collection of all other taxes and nontaxes rose, and the revenue-to-GDP ratio rebounded to 19.3 percent. In particular, as a result of adjustments in various administrative fees and charges, nontax revenue has increased sharply, although it still remained below its pre-1994/95 levels. Company tax revenue also increased substantially, due in part to an increase in the corporate tax rate. In addition, the tax on fringe benefits, the withholding tax, and non-PAYE small item income taxes

(all classified as other taxes) have increased markedly. With administrative improvements in the Customs and Excise Department, surtax revenue also rose significantly. The most important revenue boost, however, came from the introduction of the temporary export levy, which generated revenue equivalent to some 1.6 percentage points of GDP.

To further boost government revenue, the 1996/97 budget introduced new revenue measures which are projected to yield revenue equivalent to 1 percent of GDP. ^{1/} These measures include the broadening of the current surtax base to cover additional goods and services, notably the distribution of beer, imported vehicle parts, black tea, and coffee, and doubling the surtax rate for hotels and restaurants (the surtax on the latter was 10 percent). The budget also introduced a 10 percent excise tax on manufactured garments, and a 15 percent withholding tax on treasury bills. At the same time, in line with the Government's commitment to phase out the export levy on sugar, tea, and tobacco, the authorities reduced its rate from 10 percent to 8 percent. The excise duty on non-luxury passenger cars was lowered by 10 percent. In addition, the maximum tariff rate was reduced from 45 percent to 40 percent. Total revenue in 1996/97 is expected to increase by 34 percent to almost MK 5.5 billion. However, due to a large increase in nonmonetary GDP, revenue measured as a percentage of GDP is projected to decline from 16.6 percent in 1995/96 to 16.0 percent in 1996/97.

4. Expenditure

a. Budgeting process and expenditure control

Since 1986 Malawi has had a decentralized budgeting and accounting system. Under this system, the management of budget provisions and some accounting functions are transferred to ministries and departments, and Controlling Officers manage the provisions from the budget as well as monitor the cash balances in the Reserve Bank accounts. To facilitate the control of budget-approved provisions, the number of accounts opened and maintained at the Reserve Bank corresponds to the number of programs. Each item in the budget would have a ledger and the approved provision is supposed to be shown at the beginning of the fiscal year. Any payments made for goods and services would be subtracted from the provision. In principle, any payments for goods and services must be backed by cash in the Reserve Bank. Thus, any surplus or overdraft is the responsibility of Controlling Officers. This system is a total departure from the pre-1986 practice whereby the Accountant General's Department issued checks to pay for all goods and services acquired by ministries and departments.

Ministries and departments are supposed to submit monthly expenditure returns to the Treasury to provide a record of activities during the financial year on total expenditure incurred on both recurrent and

^{1/} See EBS/96/86.

development accounts. There is also a Monthly Funding System whereby the Treasury funds the Treasury Payment Accounts (TPAs) of line ministries/departments every month depending on the budget provision and the availability of cash. To monitor budget implementation and improve expenditure control, an Expenditure Monitoring Unit (EMU) was established in 1987/88. Its responsibilities include receiving and processing expenditure monitoring returns submitted by ministries/departments; opening TPAs and authorizing funding of those accounts through the Treasury Clearing House (the Account General's Department); and data entry and analysis.

The new public expenditure management system has not worked as well as intended. Whereas ministries and departments have greater financial flexibility under the new system, the unduly large number of government accounts (more than 3000 before 1994/95), inadequate fiscal reporting by ministries and departments, automatic clearance of government checks by the Reserve Bank to avoid losing financial credibility, a fragmented administrative system in the Treasury, and a weak capacity of the Account General's Department meant that there was little central financial control over ministries to bring about accountability and financial discipline. This led to a failure in controlling commitments and overspending. Other weaknesses of the budgeting and expenditure control system included the inability to forecast and monitor the government cash balances, failure to prioritize expenditure at the policy level, and lack of ex-post evaluation of spending programs. The poor expenditure control was responsible for the large expenditure overruns during the early 1990s, especially when the system came under pressure from external or internal shocks including that during the political transition in 1994.

In an effort to improve expenditure control and reverse the rapidly deteriorating conditions in public finances, the authorities introduced several measures in 1995/96, with the most important one being the introduction of a cash budget which limits monthly allocation for expenditure to the available cash inflow. To prevent the encashment of checks issued by ministries/departments without insufficient funding, government accounts were moved to commercial banks during March-April 1995. Strict guidelines were also issued to stop ministries and departments from using Local Purchase Order (LPO) to take delivery of goods and services before full payments were made. The only exceptions are capital-related purchases that are budgeted and approved by the Treasury. In addition, with the assistance of an IMF budget advisor, efforts were made to improve the budgeting process and fiscal reporting. These measures proved effective in bringing government expenditure under control. Notwithstanding continued pressures on the budget, expenditure was broadly in line with targeted level in 1995/96, and there was a minimal level of unidentified expenditure and arrears accumulated.

Despite its success to date, the cash budget is only an emergency measure since essential services and government functions may be disrupted during times of cash funding squeezes. A more rational budgeting process would allow advanced budget planning and funding of priority expenditure items. In this regard, the 1996/97 budget is based in part on a medium-term

expenditure framework exercise whose goal is to address the following issues: (i) formulation of sectoral strategies and policies; (ii) the identification of priority programs; (iii) the estimation of budgetary costs of such programs; (iv) the prioritization of these programs under the budget envelope. As a first step, the MTEF exercise in the 1996/97 budget set expenditure priorities for four key ministries: health, education, agriculture and works; pending the introduction of the MTEF in other ministries and departments, these units will be provided allocations according to key priorities. At the same time, steps are being taken to further strengthen the budgeting process, including improving the fiscal reporting and data processing, to increase accountability and reinforce the budget discipline introduced by the cash budget.

b. Expenditure trend

Inadequate expenditure control, together with recurrent droughts, led to a major expansion of expenditure during 1992/93-1995/96 (Tables 11 and 12). After declining consistently to 25 percent of GDP in 1991/92, total expenditure increased to almost 33 percent in 1992/93 due mainly to large drought-related outlays; while total expenditure declined to the pre-1992/93 level in 1993/94, it jumped to 42 percent of GDP in 1994/95 before declining to 33 percent of GDP in 1995/96. Even if the drought-related outlays were excluded, expenditure in 1994/95 and 1995/96 still averaged 33.5 percent of GDP, significantly above the average level in the past decade.

Wages and salaries increased steadily in the past four years. Having fallen from an average of more than 5 percent of GDP in the second half of the 1980s to about 4.5 percent in 1990/91-1991/92, the wage bill rose to more than 6 percent of GDP in 1992/93-1993/94 and to more than 7 percent in 1994/95-1995/96. Part of the increase relates to the hiring of a large number of agriculture extension workers and teachers. In particular, some 22,000 teachers were hired in connection with the introduction of free primary and secondary education. More important, however, were the 68 percent wage increase granted in 1992, following socio-political unrests--and the several subsequent large adjustments.

Reflecting largely the deteriorating public finance conditions and the resulting increased debt burden, interest payments rose sharply, from less than 3 percent of GDP in 1991/92 to 5.2 percent and 7.0 percent in 1994/95 and 1995/96, respectively. Development expenditure also increased during the period, although its growth was modest. While the level of other recurrent expenditure remained relatively stable, unidentified outlays have fluctuated over time. One interesting phenomenon is the existence of some complementarity between other recurrent expenditure and unidentified outlays, suggesting that during years of low budgetary provisions for other recurrent expenditure, ministries and departments may have simply overspent.

In 1996/97, the budget provides for a nominal increase in overall expenditure of more than 13 percent; however, total expenditure is envisaged to fall from 33.3 percent of GDP in 1995/96 to 27.1 percent in 1996/97, in line with the average level during the five-year period prior to 1994/95.

In particular, the budget includes a modest increase in the wage bill, amounting to 16 percent. In real terms, however, it falls from 7.2 percent of GDP in 1995/96 to 6.0 percent in 1996/97. Interest payments are projected to rise to MK 2 billion, or 6.2 percent of GDP in 1996/97, compared with 3.9 percent originally envisaged, owing to a higher level of domestic debt and continued high interest rates. The increase in development expenditure was limited to 12.3 percent in nominal terms. Thus, even though total development expenditure in U.S. dollar terms--a relevant measure owing to the very large import content of this expenditure--is to expand slightly, it is projected to decline from 6.9 percent of GDP in 1995/96 to 5.6 percent of GDP in 1996/97.

IV. Public Enterprises

While the number of commercial state-owned enterprises in Malawi is small compared to the average of number of such enterprises in sub-Saharan African countries, the parastatal sector accounts for a sizable share of the economy. In 1990-92, the parastatal sector accounted for approximately 25 percent of GDP, 20 percent of gross fixed capital formation, and 8 percent of formal sector employment, mainly in the agricultural estates, manufacturing, distribution and the financial sector. These enterprises are monitored by the Department of Statutory Bodies which was created in 1981 as part of Office of the President.

In general, the financial performance of the eleven major commercial public enterprises has improved following the Government's reform program implemented in the past year, which included greater freedom for enterprises to adjust tariff rates (see Section II). During 1991/92-1992/93, the consolidated net profits of the statutory bodies averaged MK 38 million a year (Table 13). In 1993/94 and 1994/95, however, they recorded net losses of MK 17 million and MK 222 million, respectively, largely due to losses by Malawi Railways and the Lilongwe Water Board. In 1995/96, the financial position of these enterprises improved substantially, showing a net profit of MK 248 million.

In 1994, a Privatization Commission was appointed to develop a privatization framework for Malawi. Included in this framework were the establishment of a legal and institutional framework for privatization and a public enterprise strategy study to identify a list of state owned enterprises for divestiture, privatization and liquidation, or absorption by the line ministries. In January 1996, the Government established the Privatization Transaction Unit to implement the program and complete a plan for privatizing 26 public enterprises during 1996/97 and up to 80 by 1988. In April 1996, the Privatization Bill was passed by Parliament.

ADMARC has undergone a major restructuring in recent years. As noted above, until February 1995, ADMARC controlled the distribution and marketing of smallholder production, had monopsony control over all smallholder production, and set the producer prices of most agricultural products at the beginning of the planting season. ADMARC also managed the Strategic Grain Reserve (SGR) and played the role of an investment holding company. With its accumulated cash resources, ADMARC's portfolio widened over the years to include investments in food processing and nonagricultural companies.

Under the reform program, ADMARC's role was redefined to allow for more private sector involvement in marketing and distribution. In 1995, ADMARC's near monopoly position in domestic agricultural trading was eliminated with the removal of all restrictions on domestically traded agricultural products, including maize and fertilizers. To further encourage private traders to move into fertilizer distribution and marketing, the licensing requirement for fertilizers imports was removed in March 1996. As a result, ADMARC now faces increasing competition from private traders in the output and inputs markets, and in particular in the trading of tobacco--ADMARC's

most profitable operation. ADMARC is reimbursed by the Central Government, for the maintenance of the Strategic Grain Reserve, the distribution of inputs, and the use of its distribution network for social and developmental objectives, as agreed under a Memorandum of Understanding updated in March 1995.

ADMARC's financial performance has improved during 1991/92-1995/96. After net losses in 1991/92 and 1992/93 due to a sharp fall in tobacco profits following the severe drought and low auction prices, ADMARC recorded net profits in 1993/94-1995/96 averaging about MK 33 million a year (Tables 13 and 14). The most significant development was in maize marketing. After continued losses, ADMARC made a profit in 1995 from maize trading, following the liberalization of maize marketing, which included the flexibility by ADMARC to adjust its prices according to the market conditions (within the price band mentioned in Section II). ADMARC's purchases of tobacco fell in 1995 as farmers found it more profitable to sell their tobacco directly on the auction floor or to private traders.

Malawi Railways historically has been the worst financial performer among the parastatals and a drain on the Government's budget. Net losses for Malawi Railways had been increasing until 1995. The contributing factors behind this poor performance were the disruption of its traditional rail lines through Mozambique by the civil war in that country, aging tracks and equipment, and inadequate maintenance.

In 1993 after years of heavy losses, Malawi Railways technically fell into bankruptcy and became the target of a major restructuring plan. This plan featured the closure of certain passenger services and unprofitable lines, increases in passenger tariff rates, and the retrenchment of about 1,000 workers. In addition, the company's two main divisions--Railway Services and Lake Services--were split into separate companies in 1995.

So far, financial performance has improved under the restructuring plan. For the first time since the 1970s, Malawi Railways recorded a profit in 1995. Net profit before taxes was around MK 8 million and is projected to be higher in 1996, mainly as a result of the increase in international traffic. The only subsidy that Malawi Railways continues to receive from the Government is for its passenger services. Under the joint Memorandum of Understanding signed by the Government and MR (1994), the Government was supposed to pay MK 0.5 million per month to the company in 1996/97. As of February 1996, the Government was three months behind its monthly subventions.

Electricity Supply Commission of Malawi (ESCOM) is the statutory body in charge of the production and distribution of electricity in Malawi and is one of the more profitable state enterprises in the group. In response to the growing demand for electricity, ESCOM has expanded its investment program in the areas of generation, distribution reinforcement, and transmission. Currently, ESCOM is building two major hydropower plants and has become one of the largest public enterprises in terms of the net value

of its assets. To help finance its large capital outlays, ESCOM has received regular tariff increases on the sale of its electricity, as described in Section II. Mainly because of these increases, ESCOM's revenue has increased from MK 89 million in 1991/92 to an estimated MK 365 million in 1995/96, and its net profits have also risen. For instance, they are estimated to have increased six fold from 1994/95 to 1995/96, to MK 119 million. As a result, ESCOM accounts for most of the net profit of the parastatal group.

The Malawi Development Corporation (MDC) was established in 1964 as a development finance corporation. While the mandate of MDC is to provide equity and loan financing to new ventures, about 85 percent of MDC's portfolio still remains in five subsidiary companies which cover tourism, cement production, packaging, property investment, and imports and exports. Net profits for MDC have improved substantially during the 1990s, reaching a peak of MK 31 million in 1995; traditionally, much of the profits have come from the Import and Export Company of Malawi and the Commercial Bank of Malawi Limited.

In recent years, the MDC has come under pressure to move away from being just an equity holder and return to its original role of a development finance-institution. As part of the ongoing privatization program, MDC has received bids for its stake in the Portland Cement Company and has targeted many companies in its portfolio, such as the Import and Export Company of Malawi and the Packaging Industries Limited, for privatization.

Air Malawi is the national airline and in recent years has experienced financial difficulties. Net losses in 1993/94 and 1994/95 were MK 23 million and MK 19 million, respectively, due to unfavorable movements in the exchange rate and loss making routes. Air Malawi currently owns three planes and typically earns its profits on international flights while recording losses on almost all of its domestic flights because of low fares and high operating costs.

In the past 2 years Air Malawi has undergone some restructuring including increases in domestic and international fares, the restructuring of routes, the quotation of international fares in U.S. dollars to avoid exchange losses, and other cost cutting measures such as a reduction in wages and allowances. As a result, financial conditions improved significantly in 1995/96, with net operating profits before tax projected at MK 9 million, against large losses in previous years. Air Malawi is expected to complete a study to deepen its restructuring by end-1996. The study would make specific proposals on staffing, routing, tariffs, management, and divestiture.

V. Monetary Developments and Financial Reform

The financial system in Malawi is dominated by the banking sector, which consists of the central bank (the Reserve Bank of Malawi--RBM) and five commercial banks. ^{1/} Other financial institutions include two savings banks, one building society, four development finance institutions, four leasing/finance companies, and seven insurance companies. The system is characterized by a high degree of concentration of assets and loans, reflecting the concentration of ownership in the major sectors of the economy. The RBM holds around 37 percent of the total financial assets, while the two leading commercial banks, namely the National Bank of Malawi and the Commercial Bank of Malawi, hold over 40 percent of these assets and the non-bank financial institutions hold about 15 percent.

The two leading banks are owned by a limited number of conglomerates (see Table below), which have dominant positions in the Malawi economy. At the same time, both banks hold significant control over some of these conglomerates or their affiliated companies. The same conglomerates or companies are the banking system's major depositors and borrowers.

Malawi: Major Shareholders in the Two Leading Commercial Banks, 1995

<u>Shareholder</u>	<u>National Bank</u>	<u>Commercial Bank</u>
Malawi Government	--	30.0
Press Group	38.40	40.0
ADMARC ^{1/}	31.15	--
Malawi Development Corp. ^{1/}	--	21.0
Standard Chartered Africa plc	20.45	--
South African Mutual Life	10.00	--
National Insurance Company	--	<u>9.0</u>
Total	100.0	100.0

^{1/} The Government of Malawi holds 100 percent equity in ADMARC and Malawi Development Corporation.

During the past few years, Malawi has been undertaking reforms aimed at developing the financial markets, promoting competition, and building a system of monetary control through indirect instruments. The reforms have met with some success, with new entrants in the financial system and the emergence of a money market with market-determined interest rates. The

^{1/} The five commercial banks are the National Bank of Malawi, the Commercial Bank of Malawi, Indefinance, the First Merchant Bank, and the Finance Bank.

financial system now has a broader range of instruments and services, and has developed links to international markets. Nevertheless, Malawi's financial system remains relatively underdeveloped and constrained by the overall number and size of financial institutions, and, like most countries in Sub-Saharan Africa, Malawi still has a limited menu of financial instruments.

Controls on nominal rates were lifted in 1993, but the spread between lending and deposit rates has remained high owing to the combination of high reserve requirements and a lack of competition in the banking sector.

1. Monetary reforms and policies

The reforms undertaken during the period 1989-92 aimed at dismantling administrative instruments of monetary control and replacing them with indirect instruments. ^{1/} In June 1989, statutory reserve requirements were introduced and adjusted upward in steps, as the focus of monetary policy increasingly shifted from reliance on credit ceilings to the control of reserve money; credit ceilings on commercial banks were eventually eliminated on January 1, 1991. RBM established a discount and lending facility and introduced a bank rate in May 1990. The bank rate was subsequently linked to an auction rate for bills issued by the Reserve Bank of Malawi following the first auction in November 1990. Thereafter, the RBM withdrew its bills in favor of government treasury bills which have since become the major instruments in the conduct of open market operations. With technical assistance from the Fund, the RBM has substantially expanded the scope of the treasury bill market, in terms of frequency of the auctions (currently once every two weeks), number of instruments (currently 30-, 61-, 91-, 180- and 271-day treasury bills) and range of participants which now includes nonbank institutions and individuals. In August 1995, a book entry system for recording treasury bills transactions was introduced; it has improved information available on domestic public debt and is expected to contribute to the development of an emerging secondary market in government instruments (see below).

The financial system was expanded with the establishment of two new banks, namely the First Merchant Bank and the Finance Bank, during 1995; Malawi Savings Bank also began its reorganization to expand into commercial banking operations. To promote the development of a capital market, the

^{1/} The legal framework for these reforms consisted of the Revised Reserve Bank Act (1989), the Banking Act (1989), and the Capital Markets Act (1990). The Revised Reserve Bank Act provided a basis for the RBM to increase its functions as a central bank by establishing a framework for open market operations, adjusting reserve requirements such that they could be used to meet policy goals, enhancing its supervisory powers, and strengthening its role as lender of last resort. The Banking Act established a uniform set of rules to be applied to all commercial banks, and leveled the playing field for improved competition in the future. The Capital Market Act provided for licensing and regulation of securities professionals.

Malawi: Selected Monetary Instruments, 1991-95

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Discount rate (percent)	13.0	20.0	25.0	40.0	50.0
90-day Treasury bill rate yield	11.5	16.5	22.3	45.6	45.8
Outstanding stock of					
Treasury bills (MK '000)	26.0	117.6	295.9	520.3	2,334.4
of which: held by nonbanks	1.7	1.4	37.7	56.4	1,258.8
Statutory reserve requirements					
(percent)	15.0	15.0	20.0	35.0	35.0
of which: cash reserves	...	...	...	20.0	35.0
Treasury bills	...	...	...	15.0	--

Memorandum item:

Consumer price index (end of period)	12.5	36.1	18.3	66.0	75.0
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Malawi Stock Exchange was established in November 1995. A broker, Stockbrokers Malawi Limited, commenced operations in 1995 running an over-the-counter operation to sell securities, including treasury bills. This has been instrumental in developing a secondary market for treasury bills, which expanded from MK 4 million during the third quarter of 1995 to MK 27 million during the two-month period ending January 1996. In early 1994, the exchange rate system was fully liberalized and the exchange rate was allowed to be determined by the market. This process included the licensing of 16 foreign exchange bureaus, the establishment of facilities for foreign currency deposits, and an informal foreign exchange interbank market.

On the regulatory front, a directive on Foreign Currency Exposure Limits was introduced in 1994. The Directive put the limit on overall foreign exchange exposure both on- and off-balance sheet at no more than 20 percent of a bank's capital base at any time. Limits on a single currency holdings were set at 5 percent of dealer bank's capital base. With the availability of the data on foreign currency holdings by banks and other financial institutions, the need to revise the foreign exchange exposure limits to reflect more realistically prevailing market conditions became clear. Accordingly, effective August 1, 1995, the limit on overall exchange exposure was increased to 35 percent of the capital base and to 15 percent for the U.S dollar, while the limit for all other currencies remained at 5 percent each. At the same time, penalties were introduced for failing to observe these limits.

The sharp acceleration of inflation since 1994 had rendered the statutory start-up capital for new banks (MK 2 million) and other new financial institutions (MK 0.25 million) inadequate to support the establishment of viable financial institutions. As a result, during 1995 the RBM revised upward the minimum start-up capital to US\$1.5 million or the

kwacha equivalent for new banks, and to US\$0.2 million or the kwacha equivalent for other nonbank financial institutions. At the same time, a filing fee of US\$1,250 for all bank licenses was introduced to ensure that only serious candidates apply for banking licenses.

Efforts have also been made to improve the payment systems and the coordination among banks, the central bank and the government Treasury. By early 1996, these efforts resulted in improvements in the check clearing process by reducing the lag period from 5-21 days to 2-5 days.

2. Recent monetary and credit developments

a. Monetary developments

Monetary developments during 1991-94 reflected the large and growing government borrowing requirements, which were particularly pronounced in 1992/93 and in 1994/95. Indeed, during this period, broad money expanded at a fairly rapid pace; after growing by 22 percent a year during 1991-92, it rose by about 42 percent the following year, and by a further 56.4 percent in 1994.

The expansion in broad money, which as of February 1994 includes foreign currency denominated deposits (FCDA's), was reflected in both narrow money and quasi-money aggregates. Narrow money (M1) rose in part as a result of increased demand for transactional money balances; the share of currency outside banks in M1 remained virtually constant at almost 43 percent. Quasi-money balances registered relatively modest growth during 1991-92, but grew faster than M1 in 1993-94 following the liberalization of interest rates and the opening of FCDA's. Thus, the share of quasi-money in broad money recovered from 44.6 percent in 1992 to 47.7 percent by 1994. However, the real cash balances declined in 1992 but increased significantly the following year before moderating again in 1994. Broad money stocks grew in line with GDP through 1993, with velocity remaining broadly unchanged at 6.4 percent (calendar year basis); subsequently velocity fell temporarily to 6.1 in 1994 before rising back to 6.4 in 1995, perhaps reflecting the large drop in GDP in 1994 caused by the drought.

The growth in broad money decelerated to about 44 percent in 1995. Money supply moderated as Malawi's continued fiscal adjustment effort, which began in late 1994, resulted in a substantial reduction in the deficit and in the Government's borrowing from the banking system. As domestic credit grew slower than the demand for broad money, net foreign assets of the banking system rose substantially in 1995. The growth in M1, although slower than in 1994, was nonetheless relatively high compared with quasi-money; as a result, the share of M1 in broad money increased to 53.3 percent possibly owing to an increase in transactions demand for money consistent with a recovery in economic activity. However, real money balances declined sharply in 1995 perhaps reflecting the impact of the sharp increase in maize prices and corrective price adjustments on the overall consumer price index.

Malawi: Monetary Aggregates, 1991-95

(Annual percentage change)

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Broad money	21.6	21.8	41.8	56.4	43.7
Money (M1)	28.5	30.4	36.2	53.7	46.6
Currency outside banks	...	30.1	42.9	50.8	58.1
Demand deposits	...	30.6	31.1	56.0	37.6
Quasi money	15.1	12.6	48.9	59.6	40.5
of which: foreign currency deposits	--	--	--	219.5 <u>1/</u>	8.8

Memorandum items:

Real money balances index (Jan 1993=100)	115.1	107.6	128.9	121.5	99.8
Velocity	6.5	6.4	6.4	6.1	6.4

1/ March-December 1994.

Interest rates, which were negative in real terms through 1992, became positive in 1993 when controls on nominal rates by the RBM were lifted. With the surge in inflation in 1994, real rates again became negative notwithstanding continued increases in nominal interest rates. The commercial bank prime lending rates increased from about 40 percent to about 48 percent in 1995, while the deposit rates were around 35 percent. Notwithstanding this increase, using the CPI as deflator, the prime rate in real terms was negative 20 percent in 1995 and negative 16 percent (annual basis) in the six months ending March 1996. However, using the nonfood price index as a deflator, the prime lending rates were as high as 18 percent in real terms (annual basis) during the latter period.

b. Credit developments

For the period March 1991 through September 1994, the net domestic assets of the banking system grew fairly rapidly, mainly as a result of a steady and substantial expansion in credit to the Government, owing in part to the automatic access to the ways and means account at the RBM. As a result, the share of net credit to the Government in the net domestic assets of the banking system grew from 36 percent in March 1991 to 47 percent by September 1994. However, this share fell to 29 percent by end-1995 following the major fiscal adjustment implemented during 1995/96; in particular, the Government reduced its indebtedness to the banking system by more than MK 351 million in the last quarter of the year (Tables 17 and 18). This outcome reflected in part the efforts of the RBM to limit the Government's automatic access to the ways and means advances by securitizing

Government debt into treasury bills, which were placed with the nonbank sector.

Net bank credit to the parastatals has fluctuated considerably, reflecting in some cases the building up of significant deposits with banks by the large conglomerates which have benefitted from monopoly/monopsony profits. Two important factors, namely import liberalization in the late 1980s and the RBM policy of encouraging the commercial banks to use letters of credit rather than confirming houses to meet financing needs, contributed to the overall growth of net bank credit to the private sector during 1991-95. Over this period private sector credit grew at an average of 22.7 percent a year, broadly in line with the annual growth of 23.2 percent in nominal GDP. Credit to the private sector expanded significantly in every year except for a short-lived contraction during 1993, when farmers were unable to service loans following a major drought in the previous year. Subsequently, credit to the private sector resumed a steady expansion before moderating considerably in the last half of 1995 when interest rates proved prohibitively high in real terms for borrowers in the nonfood sectors.

With respect to the sectoral composition of bank credit, agriculture has emerged as the leading recipient of credit, despite considerable fluctuations over the period. After declining sharply to 22 percent of total credit in 1991, the share of agriculture credit recovered through 1995, largely due to the improved incentives resulting from the depreciation of the Kwacha in 1994 and the liberalization of crop production and marketing since 1994 (Table 19). The share of credit going to the manufacturing sector dropped sharply in 1992 in the wake of the drought and its impact on the agro-processing industry. Since then, however, it rose in line with the trend in the agricultural sector. The manufacturing sector also benefitted from improved availability of external resources from donors after 1992. The share of credit to the wholesale and retail trade, which had grown very rapidly since the late 1980s following import liberalization, averaged more than a third of total credit to the private sector during 1990-92. However, the share declined sharply after 1993, initially reflecting scarcity of foreign exchange, and then a sharp depreciation of the Kwacha during 1994.

3. Other financial institutions

The nonbank financial institutions, whose accounts are not incorporated into the monetary survey, comprise the Malawi Savings Bank, the new Building Society, the Mercantile Credit Bank and the Investment and Development Bank (Indebank), and various insurance companies. These institutions--which are not subject to the regulatory arrangements affecting commercial banks--continue to be important players in financial intermediation in Malawi (Table 20). Their combined net domestic assets were about 52 percent (MK 452 million), of the comparable assets of the banking system by end-March 1991, but had declined to 45 percent of the banking system net domestic assets (MK 1,646 million). The most notable feature of the nonbank financial institutions lending activities was the sharp increase in credit to the private sector, with total outstanding credit which grew five-fold to

MK 1,270 million from end-1990 to end-1995, surpassing total bank credit to this sector. Their net credit to the Government remained little changed over the period until December 1994 when it registered a relatively significant expansion as these institutions acquired a substantial amount of treasury bills; by end-December 1995 outstanding credit to the Government was MK 339 million.

Under an IDA-assisted project that started in the late 1980s, the Smallholder Agricultural Credit Administration (SACA)--a department of the Ministry of Agriculture--had expanded the amount of rural credit to MK 144.7 million, reaching 15,650 clubs and 392,000 farmers by 1992/93. However, loan recoveries plummeted to only 16 percent that year, compared with 88.7 percent during 1984-91, due to the 1991/92 drought and political uncertainties during transition to democracy. This led to a virtual collapse of the scheme in 1993/94. Subsequently, in 1994 SACA was converted into an autonomous Malawi Rural Finance Company (MRFC) which started lending during the 1994/95 season providing MK 35 million; repayment of this was about 92 percent. As of December 1, 1995, MRFC had successfully rescheduled the SACA loans of 1,448 defaulted clubs which regained their eligibility to borrow, contributing to a significant increase in lending operations during 1995/96 to MK 242 million.

VI. External Sector Developments

1. Balance of payments

Exogenous factors, such as droughts and international price fluctuations, the stance of the Government's financial policies, and the extent to which structural reforms had been implemented, had a major influence on Malawi's balance of payments developments during the period 1991-95. The structural initiatives, coupled with improved weather conditions, have fostered a significant recovery in exports in the last two years, including an incipient diversification toward nontraditional exports. At the same time, import activity declined on average, as a result of a tightening of demand management policies, a substantial exchange rate adjustment with the introduction of a market-determined exchange rate system, and the effects of the drought on economic activity in 1993-94.

a. Current account

Malawi's current account deficit (excluding official transfers) increased to 18 percent of GDP in 1992 as a consequence of the severe drought on both exports and imports, but declined gradually during the subsequent years, narrowing to 12 percent of GDP by 1995 (Table 21); this reflected in part the progress made in implementing strong adjustment policies and in part improved weather conditions. Almost all of the gain was attributable to the trade account, as an expansion in commodity and nontraditional exports and lower drought-related food imports helped return the trade deficit to its pre-1992 level.

b. Merchandise trade

Performance of Malawi's export sector has been dominated by developments affecting foreign sales of agricultural commodities, which account for almost 90 percent of total exports. These developments have included the exchange rate policy, fluctuations in world commodity prices, and trends and shifts in domestic agricultural production. The latter have been the result of weather conditions and the authorities' policies regarding agricultural marketing and production, and infrastructure development. After declining by an average of 17 percent annually in 1992-93, agricultural exports grew rapidly in 1994, as Malawi gained competitiveness--following the nearly 40 percent depreciation of the Malawian Kwacha in early 1994 (Chart 2)--key international commodity prices improved, and domestic production recovered from the drought. Export growth remained strong in 1995 (about 13 percent), owing in part to the incentives created by the liberalization of the quota system on smallholders' production of burley tobacco and in part to the good performance of nontraditional exports that received a boost from a further 52 percent depreciation of the Malawian Kwacha in late 1994.

Tobacco is Malawi's most important agricultural export, as it accounts for almost 70 percent of total exports. The increase in tobacco export volume from 95,700 metric tons in 1993 to a record 99,100 metric tons in

1995 was reinforced by the significant strengthening in prices from the glut-induced lows in 1993 (Table 22). ^{1/} In addition, exports of sugar, rice, and pulses rebounded markedly in 1994-95; cotton and coffee sales abroad also benefitted from higher world prices.

As regards the geographic distribution of exports (Table 24), the United States was Malawi's main export market (about 16 percent of total) during 1993-94, but significant shares were also recorded by South Africa (about 14 percent), Japan (13 percent), Germany (12 percent), and the United Kingdom (9 percent). However, the distribution of exports changed in 1995, with South Africa replacing the United States as the major export market (16 percent), followed by Germany (about 15 percent), Japan and the United States (11 percent each), and the United Kingdom (6.4 percent). It should be noted, however, that Malawi's exports to South Africa and other neighboring countries have been affected by high tariff barriers on textiles and other products.

Malawi's import capacity was severely constrained by the lack of foreign exchange during the drought years after 1991, and thus reflected largely changes in disbursements of balance of payments assistance, commodity and project inflows, and private transfers. Non-maize imports declined by some 11 percent a year in 1993-94, but stabilized in 1995, reflecting the incipient recovery in nonagricultural activity, the stronger export performance, and an increase in official financing. Information on the composition of imports is available only through 1989, but it is estimated that imports of foodstuffs have risen considerably during the four year period 1992-95, mainly on account of food relief in response to the droughts, and that imports of petroleum and petroleum products have declined (in U.S. dollar terms) over the same period, owing to a fall in oil prices. ^{2/}

The geographic distribution of imports changed little over the last three years (see Table 24); imports from South Africa accounted for 43 percent of the total, from Zimbabwe 12 percent, the United Kingdom 6 percent, Japan and Germany about 5 percent each, and from the United States 4 percent.

c. Services account and transfers

Malawi's services account usually records noticeable deficits, reflecting interest payments and sizeable nonfactor payments associated with high costs of import-related transportation services, given that the country is land-locked. Travel payments are likely to have been under-reported

^{1/} Since tobacco harvested in a particular calendar year may be exported during the following year, annual tobacco export volume tends to be more stable than production.

^{2/} As no consistent classification of imports according to standard criteria is being applied, the information on commodity composition of imports should be interpreted with caution.

because of the earlier controls over foreign exchange for business and personal travel, which have since been eliminated with the acceptance of Article VIII obligations. Net interest payments have declined slightly since 1991 on account of greater use of concessional borrowing. Other investment income payments rose in 1994, as a result of the further relaxation of controls on dividend and profit remittances. Data on the services account, particularly noninterest service transactions had not been monitored with sufficient detail or uniformity, but recent progress in data collection and processing has eliminated substantial double counting, explaining the offsetting reduction in noninterest payments in 1992-93. The inflow of remittances, which had traditionally been an important source of foreign exchange, fell dramatically in 1991 with the cessation of the employment of Malawian miners in South African mines. These remittances amounted to some US\$15-18 million a year as recently as the late 1980s.

Malawi remains highly dependent on foreign aid to finance its investment program and to maintain a supply of essential inputs and consumer goods. Over the past five years, the percentage of imports of goods and nonfactor services financed by cash, commodity aid, and project-related grants has fluctuated within 40-60 percent, depending on political developments, economic circumstances, and the food supply situation in the country. 1/ In 1995, balance of payments grants were provided by a significant number of donors (including Germany, the EEC, Norway, Switzerland, The UK, and the US) that totaled some US\$88 million, compared with roughly US\$55 million a year in 1993-94. Other grants--drought related and commodity aid--amounted to some US\$60 million a year.

d. Capital account

The capital account surplus (including errors and omissions) fluctuated widely during the five-year period 1991-95. From a level of US\$199 million in 1991, it narrowed substantially to US\$83 million in 1992, largely on account of a cut off of nonhumanitarian donor assistance and lower disbursement of project loans, and short-term private capital outflows. After increasing to a record US\$258 million in 1993, owing to a sharp rise in loan disbursements and short-term capital inflows, the surplus narrowed again in 1994 to almost the 1992 level as the political and economic uncertainties culminated in renewed cutbacks of donor assistance and in short-term capital flight. In 1995, the capital account surplus widened to US\$139 million, reflecting mainly the significant net increase in private capital inflows, and despite a marked decline in net loan disbursements.

Medium- and long-term official borrowing fell in 1994 and is estimated to have declined further in 1995, reflecting in part continuing difficulties in complying with disbursement procedures as well as delays in satisfying conditionality attached to certain loan commitments. Disbursements by IDA

1/ Official grants and loan data are flawed in terms of coverage, completeness, timing, and monitoring. Breakdowns between grants and loans are approximate.

in support of the structural adjustment program and other bilateral lending for the balance of payments support constituted a major share of overall disbursements through 1994. However, there was almost an even split in the composition of balance of payments support and project disbursements in 1995, as donors' support of the country's economic adjustment effort has increasingly been shifting to project assistance.

Foreign investment by the private sector responded positively to the easing of restrictions in 1993, but the inflow reversed in the following year on account of political uncertainties through mid-1994. Short-term private capital inflows increased in 1995, owing mainly to tobacco auction sales prior to their shipment abroad, and renewed confidence in the Government's economic program.

e. International reserves

Gross official reserves fell substantially during the period 1992-94 to an average of less than one month of imports of goods and nonfactor services, as a result of the adverse effects of the droughts and a cut off of nonhumanitarian foreign assistance over governance concerns. Reserves rebounded in 1995, increasing from a low of US\$36 million at end-1994 to US\$106 million at end-1995, or the equivalent of 2.3 months of imports of goods and nonfactor services. The improvement in the past year reflected mainly the strong export performance and the surge in private short-term capital inflows.

2. External debt and debt service

Malawi's public and publicly-guaranteed external debt rose from US\$1.6 billion in 1991 to US\$1.9 billion in 1993, and further to US\$2.2 billion (some 159 percent of GDP) in 1995 (Table 25). This rapid increase in medium- to long-term public borrowing was in part the counterpart of the large weakening of the external current account in 1992-93 and the accumulation of international reserves in 1995. The structure of Malawi's debt has remained broadly unchanged in recent years. At the end of 1995, multilateral creditors accounted for 84 percent of total stock of debt, while the bilateral creditors who have previously rescheduled under the aegis of the Paris Club and other non-Paris Club bilateral creditors accounted for 10 percent and 4 percent, respectively. The remaining 2 percent of the total was owed to suppliers and financial institutions. The bulk of Malawi's external debt was contracted on highly concessional terms. As most of Malawi's debt carries by concessional, fixed interest rates, changes in international interest rates have had little effect on debt service; and the implicit interest rate including late charges is about 5.6 percent.

Malawi's total debt service payments rose from US\$95.9 million in 1991 to US\$99.8 million in 1992--or from 18.7 percent of exports of goods and services to 23.9 percent, respectively--but fell to US\$79.3 million (23.7 percent) in 1993 on account of a significant decline in amortization payments. In the two subsequent years, debt service rose to an average

US\$94.4 million a year. In terms of ratio to exports of goods and nonfactor services, debt service payments declined from some 24 percent in 1994 to about 22 percent in 1995.

3. Exchange and trade system

Throughout the 1980s, Malawi maintained an exchange and trade system based on tight administrative controls, designed primarily to limit the use of foreign exchange resources and thereby defend the exchange rate. During times of foreign exchange shortage and external payments arrears, quantitative restrictions were imposed on the allocation of foreign exchange, especially for private sector imports. All foreign exchange receipts were required to be surrendered to the RBM, and all foreign exchange payments were subject to approval by the Exchange Control Department (ECD) of the RBM. Most foreign exchange was allocated on a case-by-case basis by the ECD, and both exports and imports were subject to licensing by the Ministry of Commerce and Industry (MCI). Exports of a large number of goods, including maize, beans, groundnuts, and petroleum products were prohibited. Import licenses were granted only after ECD approval of a foreign exchange allocation, and were subject to a licensing fee of 5 percent of the c.i.f. value.

The import liberalization program, whose central element was the progressive removal of these quantitative restrictions, was largely completed by early 1991. A gradual liberalization of the exchange and trade system and reorientation of exchange rate policy began in late 1990, and reflected a recognition that reliance on administrative controls had driven much of the economic activity outside formal channels without stemming the inflationary pressures, it had depressed exports, and it had contributed to an inefficient structure of domestic production. The Government realized that a more open exchange and trade system and a more realistic exchange rate would lead to a reduction in import dependence and help promote the growth of nontraditional exports. The latter objective was given special priority in view of the vulnerable medium- to long-term outlook for Malawi's balance of payments. ^{1/}

Measures taken since 1991 have gradually transformed Malawi's once highly restrictive exchange and trade system into a relatively open regime in which the exchange rate has been determined by market forces since February 1994. The Government that took office in May 1994 decided to accelerate the liberalization of Malawi's exchange and trade system, and lifted the remaining restrictions on current account transactions in February 1995, culminating in the formal acceptance of Article VIII objections on December 7, 1995. The efficiency of the exchange market has improved during the course of liberalization, and in an attempt to further strengthen competition, the RBM has authorized a number of foreign exchange bureaus in addition to the commercial banks.

^{1/} See EBS/96/86, Appendix II.

Malawi is beginning to reap the benefits of this liberalization, including a significant expansion of nontraditional exports in the past two years. Also, Malawi's progressive liberalization of the exchange system has reached a stage where the authorities are planning to establish a fully integrated interbank foreign exchange market.

However, the reform of the tariff regime has not proceeded as rapidly as in other areas. Malawi maintains a highly complex tariff schedule. Customs tariffs on nongovernment imports range from 0 to 40 percent of the c.i.f. value, with a weighted average of about 18 percent in 1995. At the same time, tariff exemptions are granted for capital and intermediate goods imports, while government imports are also exempt from customs tariffs. Key agricultural exports--tobacco, tea, and sugar--are subject to a temporary export levy that was introduced in April 1995; the levy has been reduced from 10 percent to 8 percent starting April 1996.

Malawi is a participant in the Cross Border Initiative (CBI) to promote regional integration in trade, investment, and payments in the Common Market for Southern and Eastern Africa (COMESA), Southern Africa Development Community (SADC), and Indian Ocean Commission (IOC) region. ^{1/} The CBI calls for the participating countries to dismantle on a reciprocal basis, quantitative trade restrictions and nontariff barriers on a most favored nation (MFN) basis, to gradually eliminate intraregional tariffs, to harmonize tariff structures, and to establish a common external tariff (CET) by 1998. Under the CBI initiative, the Malawian authorities have set a target for tariffs on imports from countries outside the region of not more than 15 percent for the weighted average statutory rate and a maximum rate of not more than 20-25 percent by 1998; tariff rates vis-à-vis other CBI countries would decline to zero.

In evaluating the economic impact of exchange and trade liberalization, it can be summarized that the liberalization of the exchange and trade system has proceeded without any significant reversal since 1990. As a result, the principle of a market-determined exchange rate has become more widely accepted in Malawi, and market participants seem to have gained confidence that this policy approach will be sustained and have begun to behave accordingly.

As to the exchange rate policy, the RBM's official exchange rate of the Malawi kwacha to the U.S. dollar is presently based on the mid rate of the average buying and selling rates of the U.S. dollar as reported daily by the interbank market. The RBM derives its buying and selling rates for the U.S. dollar by deducting or adding 0.5 percent, respectively, to the average mid rate of the interbank market. The exchange rates for other currencies are then set using the cross rates of the appropriate currencies as quoted on the London and New York currency markets. Dealer banks calculate their

^{1/} Other participants in the CBI are: Burundi, Comoros, Kenya, Madagascar, Mauritius, Namibia, Rwanda, Seychelles, Tanzania, Uganda, Zambia, and Zimbabwe.

cross rates independent of the RBM. Except for the National Bank of Malawi, which occasionally quotes forward currency rates, dealer banks do not engage in forward foreign exchange dealings, nor are there any arrangements for forward cover against exchange risk at the RBM currency window. The Malawi kwacha has remained relatively stable since December 1994, and as at end-April 1996, the RBM's mid rate stood at MK 15.3 per U.S. dollar.

CHART 1
MALAWI

SELECTED ECONOMIC INDICATORS, 1981-95

Sources: Data provided by the Malawian authorities; and staff estimates.

1/ Twelve-month change as percent of beginning-period broad money stock.

2/ Fiscal year, beginning April 1 of previous year.

CHART 2
MALAWI

INDICES OF EFFECTIVE EXCHANGE RATES
JANUARY 1980 - MARCH 1996

(Period average, 1980=100; foreign currency per Malawi kwacha)

Sources: IMF Information Notice System; and staff estimates.

Table 1. Malawi: Gross Domestic Product by Economic Activity at Constant 1978 Factor Cost, 1991 - 95

	1991	1992	1993	1994	1995 Prel.
(In millions of Malawi kwacha)					
Agriculture	367.5	275.2	421.0	297.6	381.8
Smallholders 1/	269.0	168.3	311.1	206.9	277.1
Estates	98.5	106.9	109.9	90.7	104.7
Manufacturing	137.5	141.6	126.8	130.8	139.1
Electricity and water	24.5	26.3	27.2	29.3	30.2
Construction	43.9	43.0	41.2	39.8	41.5
Distribution	132.1	129.5	118.4	112.6	114.7
Transport and communication	60.0	59.4	56.7	51.8	53.2
Financial and professional services	71.7	71.4	67.3	62.3	66.5
Ownership of dwellings	43.6	44.4	44.9	45.9	47.0
Private community services	43.9	44.9	45.1	46.4	47.4
Government services	149.8	154.8	154.2	147.3	142.0
Unallocable financial charges	-18.8	-18.4	-25.7	-11.5	-25.4
GDP at 1978 factor cost	1,055.8	972.2	1,076.9	952.1	1,037.7
(Annual percentage change)					
Agriculture	12.8	-25.1	53.0	-29.3	28.3
Smallholders 1/	14.2	-37.4	84.8	-33.5	33.9
Estates	9.2	8.5	2.8	-17.5	15.4
Manufacturing	3.0	3.0	-10.5	3.2	6.3
Electricity and water	6.1	7.3	3.4	7.7	3.1
Construction	5.8	-2.1	-4.2	-3.4	4.3
Distribution	7.0	-2.0	-8.6	-4.9	1.9
Transport and communication	4.2	-1.0	-4.5	-8.6	2.7
Financial and professional services	7.0	-0.4	-5.7	-7.4	6.7
Ownership of dwellings	3.3	1.8	1.1	2.2	2.4
Private community services	3.3	2.3	0.4	2.9	2.2
Government services	3.1	3.3	-0.4	-4.5	-3.6
Unallocable financial charges	16.8	2.1	-39.7	55.3	120.9
GDP at 1978 factor cost	7.8	-7.9	10.8	-11.6	9.0
Memorandum items:					
GDP at current factor cost					
In millions of Malawi kwacha	5,529.9	6,045.0	8,173.9	10,083.1	18,453.9
Annual percentage change	26.0	9.3	35.2	23.4	83.0
GDP deflator at factor cost (1978=100)	523.8	621.8	759.0	1,059.0	1,778.3
GDP deflator (Annual percentage change)	16.9	18.7	22.1	39.5	67.9

Source: Department of Economic Planning and Development; and staff estimates.

1/ Including small scale manufacturing, construction and distribution.

Table 2. Malawi: Gross Domestic Product by Expenditure at Constant 1978 Market Prices, 1991 - 95

	1991	1992	1993	1994	1995 Prel.
(In millions of Malawi kwacha)					
GDP at market prices	1,134.6	1,051.4	1,153.3	1,035.2	1,133.9
Net exports or imports (-)	24.0	-12.2	-3.6	55.7	92.0
Imports of goods, f.o.b.	-179.2	-205.2	-191.5	-170.0	-164.5
Imports of nonfactor services	-121.7	-122.0	-111.1	-103.8	-97.0
Exports and re-exports of goods	309.2	306.1	291.6	319.3	346.9
Exports of nonfactor services	15.7	8.9	7.4	10.3	6.6
Gross domestic expenditure	1,110.6	1,063.6	1,156.9	979.5	1,041.9
Consumption	927.1	917.7	1,052.8	897.5	948.0
Private	675.2	664.1	803.6	650.3	691.0
Monetary 1/	332.0	401.8	404.5	330.7	302.8
Nonmonetary 2/	343.2	262.3	399.1	319.6	388.2
Government and statutory bodies	251.9	253.6	249.2	247.2	257.0
Employee compensation	179.2	186.3	175.2	167.8	164.3
Goods and services	72.7	67.3	74.0	79.4	92.7
Fixed capital formation	146.0	117.5	84.2	59.8	80.3
Public Investments	70.0	68.6	62.5	50.2	52.6
Private Investments	76.0	48.9	21.7	9.6	27.7
Stock Building	37.4	28.4	19.9	22.2	13.6
(Annual percentage change)					
GDP at market prices	8.7	-7.3	9.7	-10.2	9.5
Net exports or imports	8.2	-150.8	-70.3	-1,637.8	65.0
Imports of goods, f.o.b.	9.2	14.5	-6.7	-11.2	-3.2
Imports of nonfactor services	-0.2	0.2	-8.9	-6.6	-6.6
Exports and re-exports of goods	6.0	-1.0	-4.7	9.5	8.7
Exports of nonfactor services	-4.3	-43.4	-16.3	38.7	-36.2
Gross domestic expenditure	8.7	-4.2	8.8	-15.3	6.4
Consumption	6.2	-1.0	14.7	-14.8	5.6
Private	8.0	-1.6	21.0	-19.1	6.3
Monetary	6.8	21.0	0.7	-18.3	-8.4
Nonmonetary	9.1	-23.6	52.2	-19.9	21.5
Government and statutory bodies	1.9	0.7	-1.7	-0.8	4.0
Employee compensation	0.7	4.0	-6.0	-4.2	-2.1
Goods and services	4.9	-7.4	10.0	7.3	16.8
Fixed capital formation	18.5	-19.5	-28.3	-29.0	34.3
Public Investments	18.0	-2.1	-8.8	-19.7	4.8
Private Investments	19.0	-35.6	-55.7	-55.6	188.3
Stockbuilding	48.0	-24.2	-29.9	11.4	-38.6
Memorandum items:					
Monetary GDP 3/					
In millions of Malawi kwacha	791.4	789.1	754.2	715.6	745.7
In percent of total GDP	69.8	75.1	65.4	69.1	65.8
GDP deflator at market prices (1978=100)	538.1	636.7	775.4	1,082.8	1,820.4
GDP deflator (annual percentage change)	14.1	18.3	21.8	39.7	68.1

Source: Department of Economic Planning and Development; and staff estimates.

1/ Calculated as a residual.

2/ Smallholder production less ADMARC and private traders' purchases.

3/ GDP less nonmonetary consumption.

Table 3. Malawi: Gross Domestic Product by Expenditure at Current Market Prices, 1991 - 95

	1991	1992	1993	1994	1995 Prel.
<u>(In millions of Malawi kwacha)</u>					
GDP at market prices	6,105.5	6,693.8	8,942.2	11,209.3	20,641.3
Net exports or imports (-)	-474.6	-1,247.8	-1,466.6	-1,756.4	-2,373.6
Imports of goods, f.o.b. 1/	-1,139.6	-1,695.8	-1,824.7	-3,185.5	-5,645.4
Imports of nonfactor services 1/	-773.7	-1,055.3	-1,112.4	-1,945.6	-3,329.5
Exports and re-exports of goods	1,334.4	1,430.5	1,395.7	3,234.8	6,437.7
Exports of nonfactor services	104.3	72.8	74.8	139.9	163.5
Gross domestic expenditure	6,580.1	7,941.6	10,408.8	12,965.7	23,015.0
Gross fixed capital formation	1,030.0	1,077.0	890.0	1,243.0	2,807.2
Public	494.0	628.7	660.6	1,043.0	1,833.1
Government	294.0	394.1	361.9	700.0	1,213.9
Statutory bodies	200.0	234.6	298.7	343.0	619.2
Private	536.0	448.3	229.4	200.0	974.1
Large scale	446.0	358.3	112.4	150.0	...
Small scale	90.0	90.0	117.0	50.0	...
Consumption	5,350.1	6,684.6	9,318.8	11,482.7	19,960.0
Private	4,497.7	5,443.7	7,789.8	8,917.4	16,128.6
Monetary	2,286.6	3,377.2	4,078.5	5,015.7	6,794.1
Nonmonetary 2/	2,211.1	2,066.5	3,711.3	3,901.7	9,334.5
Government and statutory bodies	852.4	1,240.9	1,529.0	2,565.3	3,831.4
Employee compensation	387.2	737.5	847.6	1,350.6	2,351.2
Goods and services	465.2	503.4	681.4	1,214.7	1,480.2
Stock building	200.0	180.0	200.0	240.0	247.7
<u>(In percent of GDP)</u>					
GDP at market prices	100.0	100.0	100.0	100.0	100.0
Net exports or imports (-)	-7.8	-18.6	-16.4	-15.7	-11.5
Imports of goods, f.o.b.	-18.7	-25.3	-20.4	-28.4	-27.4
Imports of nonfactor services	-12.7	-15.8	-12.4	-17.4	-16.1
Exports and re-exports of goods	21.9	21.4	15.6	28.9	31.2
Exports of nonfactor services	1.7	1.1	0.8	1.2	0.8
Gross domestic expenditure	107.8	118.6	116.4	115.7	111.5
Gross fixed capital formation	16.9	16.1	10.0	11.1	13.6
Public	8.1	9.4	7.4	9.3	8.9
Government	4.8	5.9	4.0	6.2	5.9
Statutory bodies	3.3	3.5	3.3	3.1	3.0
Private	8.8	6.7	2.6	1.8	4.7
Large scale	7.3	5.4	1.3	1.3	0.0
Small scale	1.5	1.3	1.3	0.4	0.0
Consumption	87.6	99.9	104.2	102.4	96.7
Private	73.7	81.3	87.1	79.6	78.1
Monetary	37.5	50.5	45.6	44.7	32.9
Nonmonetary	36.2	30.9	41.5	34.8	45.2
Government and statutory bodies	14.0	18.5	17.1	22.9	18.6
Employee compensation	6.3	11.0	9.5	12.0	11.4
Goods and services	7.6	7.5	7.6	10.8	7.2
Stock building	3.3	2.7	2.2	2.1	1.2
<u>Memorandum items:</u>					
Monetary GDP 3/					
In millions of Malawi kwacha	3,894.4	4,627.3	5,230.9	7,307.6	11,306.8
In percent of total GDP	63.8	69.1	58.5	65.2	54.8
Net indirect taxes					
In millions of Malawi kwacha	575.6	648.8	768.3	1,126.2	2,187.4
In percent of total GDP	9.4	9.7	8.6	10.0	10.6

Source: Department of Economic Planning and Development; and staff estimates.

1/ Including drought-related free maize imports for 1992 through 1995 and excluding maize for refugees.

2/ Smallholder production less ADMARC and private traders' purchases.

3/ GDP less nonmonetary consumption.

Table 4. Malawi: Saving and Investment, 1991 - 95

	1991	1992	1993	1994	1995 Prel.
(In millions of Malawi kwacha)					
National saving	696.5	448.8	98.9	447.6	2,342.7
Domestic saving	755.4	9.2	-376.6	-273.4	681.3
Net factor income	-131.8	-140.5	-184.9	-403.1	-599.1
Net private transfers	-92.5	50.4	132.1	158.1	-59.6
Net official transfers	165.4	529.7	528.3	965.9	2,320.1
Foreign saving ^{1/}	533.5	808.2	991.1	1,035.4	712.2
Gross investment	1,230.0	1,257.0	1,090.0	1,483.0	3,054.9
Fixed capital formation	1,030.0	1,077.0	890.0	1,243.0	2,807.2
Public	494.0	628.7	660.6	1,043.0	1,833.1
Government	294.0	394.1	361.9	700.0	1,213.9
Statutory bodies	200.0	234.6	298.7	343.0	619.2
Private	536.0	448.3	229.4	200.0	974.1
Large scale	446.0	358.3	112.4	150.0	...
Small scale	90.0	90.0	117.0	50.0	...
Stock building	200.0	180.0	200.0	240.0	247.7
(In percent of GDP)					
National saving	11.4	6.7	1.1	4.0	11.3
Public Saving	1.8	-4.1	-1.6	-6.9	0.2
Private saving	9.6	10.8	2.7	10.9	11.1
Domestic saving	12.4	0.1	-4.2	-2.4	3.3
Net factor income	-2.2	-2.1	-2.1	-3.6	-2.9
Net private transfers	-1.5	0.8	1.5	1.4	-0.3
Net official transfers	2.7	7.9	5.9	8.6	11.2
Foreign saving ^{1/}	8.7	12.1	11.1	9.2	3.5
Gross investment	20.1	18.8	12.2	13.2	14.8
Fixed capital formation	16.9	16.1	10.0	11.1	13.6
Public	8.1	9.4	7.4	9.3	8.9
Government	4.8	5.9	4.0	6.2	5.9
Statutory bodies	3.3	3.5	3.3	3.1	3.0
Private	8.8	6.7	2.6	1.8	4.7
Large scale	7.3	5.4	1.3	1.3	...
Small scale	1.5	1.3	1.3	0.4	...
Stock building	3.3	2.7	2.2	2.1	1.2
Memorandum items:					
GDP at market prices (In millions of MK)	6,105.5	6,693.8	8,942.2	11,209.3	20,641.3
National saving/investment (in percent)	56.6	35.7	9.1	30.2	76.7
Foreign saving/investment (in percent)	43.4	64.3	90.9	69.8	23.3

Source: Department of Economic Planning and Development; and staff estimates.

^{1/} Including official transfers, drought related free maize & refugee maize.

Table 5. Malawi: Agricultural Production by Principal Crops, 1991-95

(In thousands of metric tons)

	1991	1992	1993	1994	1995 Prel.
<u>Marketed Production</u>					
Tobacco (auction sales)	113.4	127.2	130.4	97.6	129.7
Flue-cured	23.9	24.4	24.6	20.7	20.0
Fire-cured	17.7	8.6	4.1	5.5	7.9
Northern division	17.2	8.1	3.4	5.5	7.2
Southern division	0.5	0.5	0.7	0.0	0.7
Burley	70.1	93.5	101.6	71.3	101.2
Other	1.7	0.7	0.1	0.0	0.6
Tea	40.5	28.1	39.5	35.1	29.7
Sugar	191.1	200.4	114.2	203.0	224.4
<u>Smallholder Production</u>					
Maize	1,589.4	657.0	2,034.0	817.0	1,327.9
Rice	63.2	23.8	65.4	41.1	39.1
Groundnuts	31.1	12.1	31.9	30.6	30.6
Tobacco	18.7	16.5	28.5	15.5	35.4
Cotton	42.8	13.6	45.3	16.9	25.2
Sorghum	18.6	4.0	21.6	16.7	20.1
Millet	7.8	3.9	15.2	9.7	13.3
Pulses	68.5	55.9	109.6	78.3	99.8
Cassava	167.8	128.8	216.0	250.1	328.4
Sweet Potatoes	177.0	43.1	210.6	165.3	317.7

Sources: National Statistical Office, Monthly Statistical Bulletin; and data provided by the Malawian authorities.

Table 6. Malawi: Average Auction Prices for Tobacco and Tea, 1991-95

(In Malawi kwacha per metric ton)

	1991	1992	1993	1994	1995 Prel.
Tobacco 1/	6,583	6,117	4,956	10,380	24,230
Flue-cured	7,958	7,182	5,830	11,250	27,360
Fire-cured	3,682	3,455	4,069	15,218	25,809
Northern division	4,163	3,630	2,623	15,370	26,010
Southern division	3,201	3,279	5,314	13,000	23,450
Burley	6,824	6,481	4,889	9,760	23,430
Sun/air-cured	3,823	3,676	6,151	14,200	25,270
Tea					
London auction 2/					
Pence sterling per kg	77	85	97	85	73
Tambala per kg	372	248	...	1,085	2,159
Malawi auction					
Tambala per kg	282	298	426	643	1,215

Sources: National Statistical Office, Monthly Statistical Bulletin; data provided by the Malawian authorities; and staff estimates.

1/ Weighted average of auction prices in Lilongwe and Limbe.

2/ Weighted average of London auction prices for Malawian tea.

Table 7. Malawi: Index of Industrial Production, 1991-95 ^{1/}

(1984 = 100)

	Weight	1991	1992	1993	1994	1995 Prel. ^{2/}
Total production	100.0	138.6	137.0	129.2	122.9	125.4
Total manufacturing	86.0	136.0	132.4	123.1	114.2	116.7
Domestic goods	63.0	140.7	138.1	123.6	116.0	114.9
Consumer goods	45.0	146.8	142.9	131.5	148.6	126.7
Food, beverages, and tobacco	13.0	150.0	158.8	162.0	150.0	154.9
Footwear, clothing, and textiles	9.0	114.7	99.4	79.5	69.8	57.8
Other	23.0	157.5	151.0	134.7	130.0	137.8
Products for building and construction	18.0	125.4	126.2	103.8	86.7	85.2
Export goods	23.0	123.4	116.6	121.9	109.1	121.8
Electricity and water	14.0	154.0	164.0	116.5	176.3	178.6

Sources: National Statistical Office, Monthly Statistical Bulletin; and data provided by the Malawian authorities.

^{1/} The index is based on the monthly production of about 50 firms, each with more than 100 employees. These firms account for approximately 75 percent of the net output of all manufacturing firms with 20 or more employees, and for over 60 percent of the net output of the manufacturing sector.

^{2/} Based on data for January to October.

Table 8. Malawi: National Consumer Price Index, 1991–1995

	All Items	Food	Beverages & Tobacco	Clothing & Footwear	Housing	Household Operation	Transport	Misce- llaneous	Total Non-food
Weight	100.0	55.5	2.7	11.7	9.6	8.4	6.5	5.6	44.5
Year	(Annual average, 1990 = 100)								
1991	108.2	108.4	106.5	104.8	114.1	104.4	112.1	105.9	108.0
1992	133.4	138.9	137.4	114.4	136.7	131.7	130.5	116.7	126.5
1993	163.8	175.7	180.1	126.2	159.0	158.4	149.0	149.9	148.9
1994	220.5	242.9	259.8	149.3	191.7	219.3	197.3	206.3	192.6
1995	403.9	468.6	463.6	231.9	325.9	385.2	332.4	337.1	323.1
	(Percentage change, annual average)								
1991	8.2	8.4	6.5	4.8	14.1	4.4	12.1	5.9	8.0
1992	23.2	28.2	29.0	9.2	19.8	26.2	16.4	10.1	17.1
1993	22.8	26.5	31.1	10.3	16.3	20.2	14.2	28.5	17.7
1994	34.7	38.3	44.3	18.4	20.6	38.5	32.4	37.6	29.3
1995	83.1	92.9	78.4	55.3	70.0	75.6	68.4	63.4	67.8
	(Percentage change, December – December)								
1992	36.1	47.0	49.8	14.1	19.6	34.7	18.7	17.0	22.3
1993	18.3	19.5	13.3	7.2	16.3	12.0	19.5	42.3	16.6
1994	66.0	74.9	98.2	26.3	27.6	104.3	42.6	46.9	52.1
1995	75.0	88.5	50.2	51.6	76.2	19.5	84.1	39.4	50.8

Sources: National Statistical Office, Monthly Statistical Bulletin; data provided by the Malawian authorities; and staff estimates.

Table 9. Malawi: Central Government Operations, 1991/92-1995/96 1/

	1991/92	1992/93	1993/94	1994/95	1995/96 Est.
(In millions of Malawi kwacha)					
Total revenue and grants	1,390	1,505	1,913	3,701	6,419
Revenue	1,182	1,331	1,629	2,231	4,436
Tax	1,022	1,126	1,408	2,031	3,854
Domestic taxes	605	679	916	1,175	2,015
International trade taxes	417	447	492	857	1,838
Of which: export taxes	(--)	(--)	(--)	(--)	(354)
Nontax	160	205	221	200	483
Transfer of RBM profits	--	--	--	--	100
Grants	208	174	284	1,470	1,982
Expenditure	1,577	2,379	2,428	5,782	7,738
Current expenditure	1,219	1,263	1,776	3,602	5,659
Wages and salaries	290	450	576	1,018	1,664
Interest payments	166	219	301	717	1,617
Other recurrent expenditure 2/	764	595	900	1,867	2,378
Development expenditure	315	469	464	1,066	1,598
Drought-related expenditure 3/	--	450	125	921	425
Unidentified expenditure 4/	43	197	63	194	56
Overall deficit excluding grants	-395	-1,048	-799	-3,551	-3,302
Overall deficit including grants	-187	-874	-515	-2,081	-1,319
Net foreign financing	202	356	658	1,045	464
Borrowing	320	533	820	1,402	1,319
Of which: balance of payments support loans	(115)	(188)	(701)	(319)	(211)
Repayments	-118	-177	-162	-357	-488
Change in overdue external debt payments	...	...	...	...	-367
Net domestic financing	-15	518	-143	1,036	856
Nonbank financing	36	-9	1	283	1,003
Bank financing	-51	527	-143	753	-147
(In percent of GDP)					
Revenue	18.9	18.3	17.1	16.2	19.1
Tax	16.3	15.5	14.8	14.7	16.6
Domestic taxes	9.7	9.4	9.6	8.5	8.7
International trade taxes	6.7	6.2	5.2	6.2	7.9
Nontax	2.6	2.8	2.3	1.4	2.1
Transfer of RBM profits	--	--	--	--	0.4
Grants	3.3	2.4	3.0	10.7	8.5
Expenditure	25.2	32.8	25.5	42.0	33.3
Current expenditure	19.5	17.4	18.6	26.1	24.4
Wages and salaries	4.6	6.2	6.0	7.4	7.2
Interest payments	2.7	3.0	3.2	5.2	7.0
Other recurrent expenditure	12.2	8.2	9.4	13.5	10.2
Development expenditure	5.0	6.5	4.9	7.7	6.9
Drought-related expenditure	--	6.2	1.3	6.7	1.8
Unidentified expenditure	0.7	2.7	0.7	1.4	0.2
Overall deficit excluding grants	-6.3	-14.4	-8.4	-25.8	-14.2
Overall deficit including grants	-3.0	-12.1	-5.4	-15.1	-5.7
Net foreign financing	3.2	4.9	6.9	7.6	2.0
Net domestic financing	-0.2	7.1	-1.5	7.5	3.7
Memorandum item:					
GDP (millions of MK, fiscal year)	6,252.6	7,255.2	9,518.0	13,780.4	23,250.9

Sources: Ministry of Finance; and staff estimates and projections.

1/ Fiscal year is April/March.

2/ For 1995/96, includes pension and gratuities payments, expenditures on maize marketing and agricultural inputs program.

3/ For 1995/96, includes maize imports and expenditures on fertilizer stocks replenishment.

4/ Statistical discrepancy between fiscal and monetary accounts. For 1992/93, includes some extra budgetary outlays on maize operation.

Table 10. Malawi: Central Government Revenue, 1991/92-1994/95

(In millions of Malawi kwacha)

	1991/92	1992/93	1993/94	1994/95
Total revenue	1,181.9	1,331.4	1,628.6	2,231.0
Total tax revenue	1,021.8	1,126.4	1,407.7	2,031.5
Taxes on incomes and profits	412.3	424.8	509.1	747.8
Companies	241.1	207.0	251.8	328.8
Individuals	171.2	217.8	257.3	419.0
Minimum	3.2	1.8	--	--
Non-resident tax	3.9	2.3	--	5.7
Graduated	9.7	10.0	10.3	3.7
PAYE deductions ^{1/}	108.8	142.0	196.5	338.2
Fringe benefits	--	13.0	7.2	25.8
District commissioners' assessments	0.6	0.4	0.8	0.4
Withholding tax	45.1	48.3	42.5	45.2
Taxes on property	0.5	0.5	0.6	0.5
Taxes on goods and services	391.1	422.9	619.4	816.6
Surtax	342.9	372.0	548.1	700.4
On imports	205.7	191.1	304.2	400.2
On domestic manufactures	137.2	180.9	243.9	300.2
Excise duties	32.8	38.4	59.6	104.9
Licenses for goods and services	11.8	7.4	10.3	11.3
Business and professional	2.0	1.4	1.6	1.4
Motor vehicle tax	9.8	6.0	8.7	9.9
Accommodation and refreshment tax	3.5	5.2	1.4	--
Taxes on international trade	211.5	256.2	270.0	458.6
Import duties	210.0	255.5	267.9	457.0
Miscellaneous	1.5	0.7	2.1	1.6
Stamp duties	6.3	8.0	8.6	8.0
Drought levy	--	14.0	--	--
Nontax revenue	160.1	205.0	220.9	199.5
Treasury funds receipts	15.6	15.7	23.5	...
Rents	18.7	18.0	28.9	...
Departmental receipts	100.0	143.1	153.7	...
Other	25.8	28.2	14.8	...
Memorandum item:				
GDP at market prices (fiscal year)	6,252.6	7,255.2	9,518.0	13,780.4

Source: Ministry of Finance; and staff estimates.

^{1/} Pay-as-you-earn deductions.

Table 11. Malawi: Economic Classification of Government Expenditure, 1991/92-1994/95

	1991/92	1992/93	1993/94	1994/95
<u>(In millions of Malawi kwacha)</u>				
Total expenditure	1,577.3	2,379.4	2,428.0	5,782.2
Current expenditure	1,219.3	1,263.1	1,776.2	3,602.8
Wages and salaries	289.5	450.0	576.2	1,018.5
Other goods and services	538.1	325.5	596.4	1,410.2
Interest payments	165.8	218.5	300.5	716.7
External	80.3	112.7	115.1	277.3
Domestic	85.5	105.8	185.4	439.5
Pensions and gratuities	31.7	55.0	75.0	124.0
Transfers	100.0	164.7	160.8	276.0
Local authorities	3.5	4.9	5.5	9.5
Public bodies	60.8	115.5	110.3	186.6
Private	13.6	20.7	21.3	34.9
Abroad	22.3	23.6	23.7	45.0
Gross fixed capital formation	85.4	41.3	57.6	48.8
Loans and capital transfers	8.8	8.1	9.7	8.6
Development expenditure	314.8	469.4	464.4	1,066.3
Drought-related expenditure	--	450.0	124.7	920.5
Unidentified expenditure	43.2	196.9	62.7	193.6
<u>(In percent of total expenditure)</u>				
Current expenditure	77.3	53.1	73.2	62.2
Wages and salaries	18.4	18.9	23.7	17.6
Other goods and services	34.1	13.7	24.6	24.4
Interest payments	10.5	9.2	12.4	12.4
Pensions and gratuities	2.0	2.3	3.1	2.1
Transfers	6.3	6.9	6.6	4.8
Local authorities	0.2	0.2	0.2	0.2
Public bodies	3.9	4.9	4.5	3.2
Private	0.9	0.9	0.9	0.6
Abroad	1.4	1.0	1.0	0.8
Gross fixed capital formation	5.4	1.7	2.4	0.8
Loans and capital transfers	0.6	0.3	0.4	0.2
Development expenditure	20.0	19.7	19.1	18.4
Drought-related expenditure	--	18.9	5.1	15.9
Unidentified expenditure	2.7	8.3	2.6	3.5

Source: Ministry of Finance; and staff estimates.

Table 12. Malawi: Functional Classification of Central Government
Current Expenditure, 1991/92-1994/95

	1991/92	1992/93	1993/94	1994/95
<u>(In millions of Malawi kwacha)</u>				
General services	417.8	648.4	657.6	1,236.0
General administration	247.0	439.2	475.3	896.4
Nacala	38.0	33.0	--	--
Defence	66.5	99.1	90.4	159.4
Justice and public order	66.3	77.2	91.9	180.2
Social services	215.0	328.9	408.2	628.2
Education	104.2	190.3	251.0	351.8
Health	81.2	94.6	113.2	244.9
Community and social development	29.7	44.0	44.0	31.5
Economic services	306.0	237.1	390.5	1,225.5
Natural resources	163.5	141.1	184.7	725.9
Transportation	51.9	40.6	60.2	54.5
Post and telecommunications	11.9	14.0	2.7	--
Other	78.7	41.4	142.9	445.1
Unallocable	280.5	498.7	444.6	1,432.6
Interest on public debt	165.8	218.5	300.5	716.7
Pensions and gratuities	31.7	55.0	90.6	123.8
Other	83.0	225.2	53.5	592.1
Total 1/	1,219.3	1,713.1	1,900.9	4,522.3
<u>(In percent of total current expenditure)</u>				
General services	37.1	37.9	34.6	31.0
General administration	21.8	25.6	25.0	22.5
Nacala	3.6	1.9	--	--
Defence	6.0	5.8	4.8	4.0
Justice and public order	5.7	4.5	4.8	4.5
Social services	22.3	19.2	21.5	15.8
Education	12.2	11.1	13.2	8.8
Health	7.3	5.5	6.0	6.2
Community and social development	2.8	2.6	2.3	0.8
Economic services	16.8	13.8	20.5	30.8
Natural resources	9.4	8.2	9.7	18.2
Transportation	4.8	2.4	3.2	1.4
Post and telecommunications	1.2	0.8	0.1	--
Other	1.4	2.4	7.5	11.2
Unallocable	23.7	29.1	23.4	21.1
Interest on public debt	15.4	9.6	15.8	18.0
Pensions and gratuities	3.2	3.2	4.8	3.1
Other	5.1	16.3	2.8	--

Source: Ministry of Finance; and staff estimates.

1/ Excludes unidentified expenditure and includes drought-related expenditure.

Table 13. Malawi: Accounts of Leading Public Enterprises, 1991/92-1995/96

(In thousands of Malawi kwacha)

	Revenue	Interest Charges	Depreciation	Net Profit or Loss	Gross Investment
ADMARC					
1991/92	324,205	9,119	4,809	-563	10,473
1992/93	213,668	9,679	5,000	-527	6,744
1993/94	324,902	16,999	5,367	32,849	7,545
1994/95	406,386	20,006	5,078	22,129	34,397
1995/96 Prel.	912,523	27,554	7,000	44,659	24,859
Malawi Railways					
1991/92	25,092	1,640	3,774	-8,573	6,901
1992/93	28,835	2,350	6,134	-13,217	6,108
1993/94	30,000	5,514	6,178	-25,775	28,097
1994/95	41,272	7,236	4,854	-61,664	3,070
1995/96	44,405	2,087	14,552	8,303	...
Electricity Supply Commission (ESCOM)					
1991/92	89,619	8,234	15,172	38,693	119,605
1992/93	114,290	10,712	21,452	43,872	158,831
1993/94	148,464	17,817	24,094	44,433	258,176
1994/95	217,402	28,259	78,821	19,571	535,998
1995/96 Prel.	364,785	46,491	76,210	118,416	880,449
Malawi Development Corporation <u>1</u>/					
1991	8,339	1,817	173	3,230	419
1992	13,556	1,757	250	6,005	938
1993	31,303	3,551	296	20,316	850
1994	41,901	7,151	250	26,346	44,549
1995 Prel.	56,393	12,791	766	30,774	67,611
Malawi Housing Corporation					
1991/92	27,953	2,780	1,473	4,959	2,750
1992/93	34,911	8,225	1,454	1,850	4,648
1993/94	31,780	6,287	16,244	-24,076	3,908
1994/95	28,204	8,088	15,772	-31,826	11,627
1995/96 Prel.	55,375	9,128	14,093	-11,578	14,250
Air Malawi					
1991/92	62,806	827	6,550	2,988	161,676
1992/93	84,211	5,136	11,076	7,222	6,486
1993/94	100,823	1,136	8,766	-22,780	23,170
1994/95	247,428	1,737	3,119	-18,802	9,420
1995/96 Prel.	312,943	1,968	6,348	8,936	15,711
Blantyre Water Board					
1991/92	21,425	2,281	5,139	2,033	9,118
1992/93	26,755	3,798	8,059	-2,547	8,744
1993/94	30,319	2,932	10,862	-10,753	6,022
1994/95	47,515	3,893	21,723	-27,625	58,146
1995/96 Prel.	99,131	4,524	27,250	177	111,847

Table 13 (concluded). Malawi: Accounts of Leading Public Enterprises, 1991/92-1995/96

(In thousands of Malawi kwacha)

	Revenue	Interest Charges	Depreciation	Net Profit or Loss	Gross Investment
Lilongwe Water Board					
1991/92	11,729	536	2,763	1,873	14,585
1992/93	15,035	2,929	3,898	931	11,237
1993/94	17,544	10,664	6,434	-33,374	9,345
1994/95	27,367	15,822	10,976	-102,549	23,087
1995/96 Prel.	53,347	16,500	15,000	-19,784	27,045
Malawi Book Service					
1991/92	11,119	...	191	-2,890	889
1992/93	12,686	300	248	-649	1,565
1993/94	13,372	120	163	-622	251
1994/95	14,895	323	308	-3,466	348
1995/96 Prel.	25,600	10,859	316	537	727
Mining Investment and Development Corporation (MIDCOR)					
1991/92	4,262	100	601	-2,310	1,875
1992/93	21	651	800	351	...
1993/94	113	125	87	-86	360
1994/95	1,963	...	...	...	...
1995/96 Prel.	2,371	...	...	...	...
Malawi Dairy Industries ^{2/}					
1991/92	20,035	476	2,088	2,937	2,355
1992/93	24,699	476	2,200	1,074	4,509
1993/94	38,658	500	2,520	1,886	4,508
1994/95	44,236	823	2,575	1,334	3,972
1995/96 Prel.	76,743	720	3,098	9,041	10,072
Consolidated ^{3/}					
1991/92	618,925	29,399	43,345	36,280	331,254
1992/93	596,168	47,762	61,330	38,963	211,296
1993/94	812,732	67,818	84,546	-16,836	345,050
1994/95	1,227,044	96,287	153,059	-221,769	736,542
1995/96 Prel.	3,491,802	136,858	168,130	247,806	1,167,064

Source: Ministry of Statutory Corporations.

^{1/} Year ended December 31.

^{2/} Year ended September 30.

^{3/} Includes other public enterprises not listed here.

Table 14. Malawi: ADMARC Summary Accounts, 1991/92-1994/95

(In millions of Malawi kwacha)

	1991/92	1992/93	1993/94	1994/95
Operating profit (crop trading)	-12.1	-33.7	34.9	11.0
Maize	14.8	3.9	28.8	-34.9
Tobacco	-24.8	-32.6	-7.2	-2.7
Cotton	-4.0	-4.6	6.3	-0.6
Groundnuts	1.5	-0.4	--	--
Rice	-0.2	-0.1	-3.9	1.2
General produce	-1.0	-0.3	6.6	-6.9
Farm inputs	1.4	-17.0	-30.4	-26.5
Other revenue	25.9	43.9	20.2	88.6
Other expenses	15.1	11.3	21.8	77.0
Net profit or loss	-1.3	-1.1	33.3	22.6

Sources: ADMARC Annual Reports; and Ministry of Statutory Corporations.

Table 15. Malawi: Interest Rates, 1991-95

(In percent per annum; end of period)

	1991	1992	1993	1994	1995
Reserve Bank of Malawi					
Bank rate	13.00	20.00	25.00	40.00	50.00
Treasury bills					
30 days	--	--	--	40.71	48.44
61 days	--	--	--	42.68	47.54
91 days	11.50	16.50	22.26	45.61	45.80
182 days	--	--	--	54.38	48.10
Commercial banks ^{1/}					
Lending rates ^{2/}					
Minimum (= prime lending rate)	14.00	21.00	26.00	40.00	48.00
Maximum	...	28.00	31.00	...	...
Deposits					
Savings	13.00	20.00	24.00	34.00	34.0
Short-term ^{3/}					
3 months	12.25	19.25	24.25	34.00	33.5
12 months	12.75	19.75	24.75	33.00	nego.
Other financial institutions ^{1/}					
Malawi Savings Bank ^{4/}					
Deposits	10.75	16.00	18.00	18.00	25.0
New Building Society					
Fixed deposits (6-11 months)	13.25	19.50	...	25.25	43.0
Savings deposits	9.75	17.00	22.00	23.00	38.0
Investment deposits	13.20	17.50	22.50	23.50	38.5
Minimum mortgage rate ^{2/}	12.75	12.75	19.75	19.75	44.0
Leasing and Finance Co.					
Lending rate	25.00	31.00	36.00	36.00	49.75
3-month time deposits	13.50	19.75	24.75	24.75	37.25
12-month time deposits	15.00	21.25	26.25	26.25	40.00
24-month time deposits	16.25	22.00	27.25	27.25	27.25
36-month time deposits	18.25	23.25	28.25	28.25	28.25
60-month time deposits	19.00	24.00	29.00	29.00	29.00
Investment and Development Bank					
24-hour notice of withdrawal (minimum MK 250,000)	4.00	7.50	8.00	17.50	20.00
30-day time deposits	...	13.50	18.00	31.00	39.50
12-month time deposits	...	20.00	25.00	35.50	nego.
Local registered stock ^{5/}	15.50	15.50	23.75	38.00	38.0
Memorandum items:					
Real interest rates ^{6/}					
Commercial banks					
Prime lending rate	0.1	-11.1	6.5	-15.7	-15.4
Savings deposits	0.4	-11.8	4.8	-19.3	-23.4
12-month time deposits	--	-12.0	5.5	-19.9	...
Local registered stock	2.2	-15.1	4.6	-16.9	-21.1
Composite consumer price index (end of period)	12.5	36.1	18.3	66.0	75.0

Sources: Reserve Bank of Malawi, Financial and Economic Review; and staff estimates.

^{1/} Selected from a much wider range of rates offered by the institutions.

^{2/} Effective July 23, 1987, these rates were deregulated and set independently by the commercial banks.

^{3/} MK 10,000 or over; subject to 30 days' written notice of withdrawal; maximum MK 1 million.

^{4/} After the separation from the Post Office in 1993, the Post Office Savings Bank has been renamed Malawi Savings Bank.

^{5/} Maximum available nominal rate on stock with five years or more to redemption.

^{6/} Deflated by the 12-month rate of change of the consumer price index.

Table 16. Malawi: Monetary Survey, March 1991–December 1995

	1991		1992		1993		1994				1995			
	Mar.	Dec.	Mar.	Dec.	Mar.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
(In millions of Malawi kwacha; end of period)														
Net foreign assets	-103.0	8.9	-203.9	-493.8	-565.4	-322.7	-272.5	-419.1	-471.0	-1174.0	-1191.7	-295.4	519.6	195.2
Monetary authorities 1/	-76.1	49.9	-191.7	-409.8	-499.6	-290.7	-401.9	-785.4	-842.9	-1434.7	-1609.8	-764.1	149.0	-104.6
Foreign assets	280.6	391.4	140.3	202.3	105.0	241.9	473.9	172.6	302.3	563.7	537.4	1070.6	1889.3	1619.4
Foreign liabilities	-356.7	-341.5	-332.0	-612.1	-604.6	-332.6	-875.8	-958.0	-1145.2	-1998.4	-2147.2	-1834.7	-1740.3	-1724.0
Commercial banks	-26.9	-41.0	-12.2	-84.0	-65.8	-32.0	129.4	366.3	371.9	260.7	418.1	468.7	370.6	299.8
Net domestic assets	857.0	991.6	1095.4	1712.5	1706.6	2051.1	1977.3	2617.7	3050.7	3877.8	3912.6	4388.8	4006.1	3690.7
Domestic credit (net)	784.3	887.2	951.6	1594.1	1540.2	1761.6	1595.3	2279.5	2348.4	2449.2	2575.3	2739.8	2265.2	2371.0
Credit to the Government	305.3	213.0	254.8	739.0	781.6	941.0	637.8	1310.4	1421.4	1345.1	1358.7	1388.4	1050.4	1069.8
Credit to statutory bodies	-74.4	15.7	-1.3	-29.3	-88.3	55.7	21.5	-7.8	-149.4	-74.0	-74.6	32.6	23.9	48.6
Credit to the private sector	553.4	658.5	698.1	884.4	846.9	764.9	936.0	976.9	1076.4	1178.1	1291.2	1318.8	1190.9	1252.6
Other assets (net)	72.7	104.4	143.8	118.4	166.4	289.5	382.0	338.2	702.3	1428.6	1337.3	1649.0	1740.9	1319.7
Money and quasi-money	754.0	1000.5	891.5	1218.7	1141.2	1728.4	1704.8	2198.6	2579.7	2703.8	2720.9	4093.4	4525.7	3885.9
Money	373.1	518.3	446.1	675.7	627.0	920.1	857.5	1017.5	1256.7	1414.0	1430.2	2204.0	2478.9	2073.2
Currency outside banks	152.4	222.7	196.1	289.8	283.4	414.2	398.7	563.7	580.1	624.7	628.2	1116.0	1140.4	987.5
Demand deposits	220.7	295.6	250.0	385.9	343.6	505.9	458.8	453.8	676.6	789.3	802.0	1088.0	1338.5	1085.7
Quasi-money	380.9	482.2	445.4	543.0	514.2	808.3	847.3	1181.1	1323.0	1289.8	1290.7	1889.4	2046.8	1812.7
Of which: foreign currency deposits	(--)	(--)	(--)	(--)	(--)	(--)	(89.6)	(285.3)	(411.3)	(286.3)	(321.9)	(715.5)	(586.4)	(311.6)
(Twelve-month change as percent of beginning period money stock) 2/														
Net foreign assets	3.2	1.3	-13.4	-50.2	-40.5	14.0	25.7	9.2	-4.0	-49.3	-53.9	5.6	38.4	50.6
Net domestic assets	8.8	20.3	31.6	72.1	68.6	27.8	23.7	182.3	171.0	105.7	113.5	80.6	37.0	-6.9
Credit to the Government	-2.8	-1.2	-6.7	52.6	59.1	16.6	-12.6	24.7	17.7	23.4	42.3	3.5	-14.4	-10.2
Credit to statutory bodies	-0.7	2.9	9.7	-4.5	-9.8	7.0	9.6	2.3	-7.9	-7.5	-5.6	1.8	6.7	4.5
Credit to the private sector	11.1	17.2	19.2	22.6	16.7	-9.8	7.8	9.5	17.8	23.9	20.8	15.6	4.4	2.8
Other assets (net)	1.1	1.5	9.4	1.4	2.5	14.0	11.0	-12.4	-2.0	49.3	42.4	40.1	33.5	-4.0
Money and quasi-money	12.0	21.6	18.2	21.8	28.0	41.8	41.5	53.1	44.6	56.4	59.6	86.2	75.4	43.7
Memorandum items:														
Credit to the private sector (12-month Percentage change)	15.6	27.4	26.1	34.3	21.3	-13.5	10.5	16.2	41.7	54.0	37.9	35.0	10.6	6.3

Sources: Reserve Bank of Malawi.

1/ Valued at current MK/SDR exchange rate; prior to January 1994 liabilities to the IMF and SDR allocations revalued every May.

2/ On the basis of the beginning broad money stock including foreign currency deposits, which were introduced in February 1994.

Table 17. Malawi: Summary Accounts of the Monetary Authorities, March 1991–December 1995 1/

(In millions of Malawi kwacha; end of period)

	1991		1992		1993		1994				1995			
	Mar.	Dec.	Mar.	Dec.	Mar.	Dec.	Mar.	June	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
Net foreign assets 2/	-76.1	49.9	-191.7	-409.8	-499.6	-290.7	-401.9	-785.4	-842.9	-1434.7	-1609.8	-764.1	149.0	-104.6
Foreign assets	280.6	391.4	140.3	202.3	105.0	241.9	473.9	172.6	302.3	563.7	537.4	1070.6	1889.3	1619.4
Foreign liabilities	-356.7	-341.5	-332.0	-612.1	-604.6	-532.6	-875.8	-958.0	-1145.2	-1998.4	-2147.2	-1834.7	-1740.3	-1724.0
IMF 3/	-318.0	-306.4	-290.4	-373.7	-362.4	-367.2	-608.4	-688.9	-863.6	-1663.1	-1709.8	-1719.5	-1583.0	-1723.6
Other	-38.7	-35.1	-41.6	-238.4	-242.2	-165.4	-267.4	-269.1	-281.6	-335.3	-437.4	-115.2	-157.3	-0.4
Net domestic assets	130.2	81.6	204.2	555.2	499.8	795.7	539.4	1048.5	677.3	78.3	-214.8	393.2	-285.3	260.7
Net domestic credit	255.4	208.2	204.2	666.0	627.5	678.8	560.2	1134.6	975.3	1060.9	900.3	1430.9	617.3	796.2
Credit to the Government (net)	229.7	141.6	161.9	568.3	551.2	606.9	477.1	1035.0	877.0	959.9	791.3	1319.8	506.7	674.4
Credit to Government (gross)	558.4	459.2	463.6	803.3	771.3	958.7	760.2	1242.6	1082.2	1309.5	1,183.2	1,469.8	1,254.3	1,266.2
Deposits	-328.7	-317.6	-301.7	-235.0	-220.1	-351.7	-283.2	-207.6	-205.2	-349.5	-391.9	-150.0	-747.6	-591.8
Credit to statutory bodies (net)	25.7	66.6	42.3	97.7	76.3	71.9	83.1	99.6	98.3	101.0	109.0	111.1	110.6	121.8
Credit	81.3	131.8	91.8	119.7	104.6	117.5	117.9	119.2	116.2	115.5	116.1	116.3	115.8	127.0
Deposits	-55.6	-65.2	-49.5	-22.0	-28.3	-45.6	-34.8	-19.6	-17.9	-14.5	-7.1	-5.2	-5.2	-5.2
Other assets (net)	-125.2	-126.6	0.0	-110.8	-127.7	116.9	-20.8	-86.1	-298.0	-982.6	-1115.1	-1037.7	-902.6	-535.5
Blocked deposits	-165.8	-165.5	-145.2	-118.9	-118.2	-77.1	-77.1	-68.5	-68.5	-68.5	-68.5	-68.5	-68.5	-68.5
Old 4/	-2.7	-2.7	--	--	--	--	--	--	--	--	--	--	--	--
New 5/	-163.1	-162.8	-145.2	-118.9	-118.2	-77.1	-77.1	-68.5	-68.5	-68.5	-68.5	-68.5	-68.5	-68.5
Capital and reserves	-112.7	-160.9	-100.9	-218.9	-247.8	-180.6	-346.9	-429.2	-670.4	-1402.3	-1571.2	-1503.3	-1435.0	-1217.5
Other assets (net)	153.3	199.8	246.1	227.0	238.3	374.6	403.2	411.6	440.9	488.2	524.6	534.1	600.9	750.5
Other items (net)	-255.9	-265.5	-256.5	-380.8	-381.1	-399.3	-613.8	-698.2	-869.6	-1515.2	-1648.6	-1789.7	-1722.0	-1699.0
Revaluation accounts	-297.6	-308.5	-299.5	-444.2	-444.5	-466.0	-717.1	-815.8	-1022.2	-1759.6	-1910.2	-2052.2	-1973.4	-1948.5
Profit and loss on devaluation account	--	--	9.0	-135.7	--	--	-251.1	-349.8	-556.2	-1025.1	-1152.3	-1180.7	-1101.9	-1077.0
Promissory notes	-297.6	-308.5	-308.5	-308.5	-444.5	-466.0	-466.0	-466.0	-466.0	-734.5	-757.9	-871.5	-871.5	-871.5
SDR allocation	41.7	43.0	43.0	63.4	63.4	66.7	103.3	117.6	152.6	244.4	261.6	262.5	251.4	249.5
Reserve money	310.0	454.8	269.0	499.3	435.4	794.4	722.1	998.1	1019.3	1216.1	1060.2	2500.4	2614.1	2299.3
Liabilities to banks	157.6	232.1	72.9	209.5	152.0	380.2	323.4	434.4	439.2	591.4	432.0	1384.4	1473.7	1311.8
Cash in vault	9.9	18.2	16.4	23.0	21.8	26.5	25.2	35.8	34.8	47.3	52.9	60.1	91.3	113.6
Deposits with RBM	147.7	213.9	56.5	186.5	130.2	353.7	298.2	398.6	404.4	544.1	379.1	1324.3	1382.4	1198.2
Liabilities to the private sector (currency in circulation)	152.4	222.7	196.1	289.8	283.4	414.2	398.7	563.7	580.1	624.7	628.2	1116.0	1140.4	987.5

Source: Reserve Bank of Malawi.

1/ Totals may not be the sum of their parts, owing to rounding.

2/ Valued at end of month MK/SDR exchange rate; prior to January 1994 liabilities to the IMF and SDR allocations revalued every May.

3/ Outstanding use of Fund resources plus outstanding Trust Fund obligations as recorded in the Reserve Bank of Malawi's balance sheet, less Malawi's reserve tranche with the Fund.

4/ Farm account deposits.

5/ Counterparts of the Government's and statutory bodies' rescheduled debt service payments paid into blocked accounts at the Reserve Bank of Malawi.

Table 18. Malawi: Summary Accounts of the Commercial Banks, March 1991–December 1995 1/

(In millions of Malawi kwacha; end of period)

	1991		1992		1993		1994				1995			
	Mar.	Dec.	Mar.	Dec.	Mar.	Dec.	Mar.	June	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
Net foreign assets	-26.9	-41.0	-12.2	-84.0	-65.8	-32.0	129.4	366.3	371.9	260.7	418.1	468.7	370.6	299.8
Foreign assets	28.6	12.1	45.2	44.2	57.0	77.9	243.7	447.7	507.6	390.9	569.7	630.9	534.5	449.8
Foreign liabilities	-55.5	-53.1	-57.4	-128.2	-122.8	-109.9	-114.3	-81.4	-135.7	-130.2	-151.6	-162.2	-163.9	-150.0
Cash and reserves	157.6	174.3	94.0	209.5	152.0	380.2	323.4	434.4	439.2	591.4	432.0	1,384.4	1,473.7	1,311.8
Cash	9.9	18.2	16.4	23.0	21.8	26.5	25.2	35.8	34.8	47.3	52.9	60.1	91.3	113.6
Deposits with Reserve Bank	147.7	156.1	77.6	186.5	130.2	353.7	298.2	398.6	404.4	544.1	379.1	1,324.3	1,382.4	1,198.2
Net domestic assets	470.9	644.5	613.6	803.4	771.6	966.0	853.3	834.2	1,188.5	1,227.0	1,242.6	1,124.3	1,541.0	1,286.8
Domestic credit (net)	528.9	679.0	747.4	928.1	912.7	1082.8	1,035.1	1,144.9	1,373.1	1,388.3	1,675.0	1,308.9	1,647.9	1,574.8
Credit to the Government (net) 2/	75.6	71.4	92.9	170.7	230.4	334.1	160.7	275.4	544.4	385.2	567.4	68.6	543.7	395.4
Credit to statutory bodies	-100.1	-50.9	-43.6	-127.0	-164.6	-16.2	-61.6	-107.4	-247.7	-175.0	-183.6	-78.5	-86.7	-73.2
Credit	34.6	84.1	71.6	22.5	26.4	154.3	148.5	159.6	77.4	47.6	48.9	102.6	210.5	183.0
Deposits	-134.7	-135.0	-115.2	-149.5	-191.0	-170.5	-210.1	-267.0	-325.1	-222.6	-232.5	-181.1	-297.1	-256.2
Credit to the private sector	553.4	658.5	698.1	884.4	846.9	764.9	936.0	976.9	1,076.4	1,178.1	1,291.2	1,318.8	1,190.9	1,252.6
Other assets (net)	-58.0	-34.5	-133.8	-124.7	-141.1	-116.8	-181.8	-310.7	-184.6	-161.3	-432.4	-184.6	-106.9	-288.0
Claims on other banks	91.1	73.2	75.0	87.9	86.9	110.1	146.6	97.0	213.3	283.4	123.2	278.3	530.6	196.1
Premises and other equipment	43.3	60.6	62.4	65.2	65.8	66.9	77.5	81.4	86.5	198.8	188.6	237.2	242.8	237.3
Other assets	32.1	54.5	42.2	73.1	46.1	76.9	75.8	90.3	112.0	100.1	159.8	227.2	234.8	434.3
Liabilities to other banks	-28.6	-28.8	-62.6	-20.2	-8.4	-17.7	-27.3	-15.3	-23.7	-43.7	-70.6	-53.7	-47.6	-70.8
Capital accounts	-110.2	-146.3	-161.4	-184.5	-180.8	-205.7	-224.8	-269.2	-303.8	-410.5	-448.0	-465.8	-540.4	-598.2
Reserve Bank of Malawi bills	11.0	40.8	2.0	--	--	--	--	--	--	--	--	--	--	--
Nonperforming debts	-23.2	-29.0	-29.0	-29.0	-29.0	-29.0	-35.7	-35.7	-35.7	-35.7	-35.7	-35.7	-35.7	-35.7
Other liabilities	-73.5	-59.5	-62.4	-117.2	-121.7	-118.3	-193.9	-259.2	-233.2	-253.7	-349.7	-372.1	-491.4	-451.0
Deposits of the private sector	601.6	777.8	695.4	928.9	857.8	1314.2	1,306.1	1,634.9	1,999.6	2,079.1	2,092.7	2,977.4	3,385.3	2,898.4
Demand deposits	220.7	295.6	250.0	385.9	343.6	505.9	548.4	739.1	1,087.9	1,075.6	1,123.9	1,803.5	1,924.9	1,397.3
Of which: Foreign currency deposits 3/	--	--	--	--	--	--	89.6	285.3	411.3	286.3	321.9	715.5	586.4	311.6
Time and saving deposits	380.9	482.2	445.4	543.0	514.2	808.3	757.7	895.8	911.7	1,003.5	968.8	1,173.9	1,460.4	1,501.1
Memorandum item:														
Reserve/deposit ratio (in percent) 4/	21.4	19.1	11.6	19.4	14.5	25.6	21.3	22.8	18.9	25.7	18.6	43.8	40.0	41.6

Source: Reserve Bank of Malawi.

1/ Totals may not be the sum of their parts, owing to rounding.

2/ With effect from January 1995 treasury bill holdings recorded at the discount value.

3/ Foreign currency deposits were introduced in February 1994.

4/ Including deposits of statutory bodies.

Table 19. Malawi: Distribution of Commercial Banks' Advances by Main Sector, 1991-June 1995

	1991	1992	1993	1994	1995 June
(In millions of Malawi kwacha; end of period)					
Agriculture	142.7	219.9	218.4	304.4	400.2
Mining and quarrying	0.4	0.5	1.2	1.0	0.8
Manufacturing	171.8	134.3	214.3	353.5	371.8
Electricity, water, and gas	--	0.2	0.1	0.2	0.4
Construction and civil engineering	7.4	6.7	14.2	25.8	39.1
Wholesale and retail trade	226.2	346.5	193.5	238.7	258.5
Transport, storage, and communications	19.6	23.4	22.7	35.4	41.8
Finance, insurance, real estate, and business services	69.4	94.1	72.5	92.8	112.1
Community, social, and personal services	10.3	14.1	13.8	24.8	20.8
Personal accounts	14.9	43.0	30.8	36.2	121.7
Total	657.0	882.7	795.6	1,112.8	1,367.2
(In percent of total) 1/					
Agriculture	21.7	24.9	27.4	27.3	29.2
Mining and quarrying	--	0.1	0.2	0.1	0.1
Manufacturing	26.2	15.2	26.9	31.8	27.2
Electricity, water, and gas	--	--	--	--	--
Construction and civil engineering	1.1	0.8	1.8	2.3	2.9
Wholesale and retail trade	34.4	39.2	24.3	21.5	18.9
Transport, storage, and communications	3.0	2.6	2.9	3.1	3.1
Finance, insurance, real estate, and business services	10.6	10.6	9.1	8.3	8.2
Community, social, and personal services	1.6	1.6	1.7	2.2	1.5
Personal accounts	2.2	4.9	3.8	3.3	8.9

Sources: Reserve Bank of Malawi, Financial and Economic Review; and data provided by the Malawian authorities.

1/ Totals may not add due to rounding.

Table 20. Malawi: Summary Accounts of Nonbank Financial Institutions, March 1991-December 1995

(In millions of Malawi kwacha; end of period)

	1991		1992		1993		1994		1995	
	March	Dec.	March	Dec.	March	Dec.	March	Dec.	March	Dec.
Nonbank financial institutions ^{1/}										
Cash deposits with monetary authorities	1.7	2.3	6.4	4.8	18.0	10.7	4.6	2.4	1.0	4.1
Domestic assets (net)	184.5	278.6	305.8	357.7	393.4	338.3	368.6	833.4	928.3	942.2
Credit to the Government	24.4	25.9	30.2	27.4	22.5	29.2	28.6	38.9	111.8	164.5
Credit to statutory bodies	1.4	1.3	1.0	6.3	6.0	5.3	5.8	5.7	5.1	9.8
Credit to the private sector	177.9	249.7	280.9	331.1	390.9	324.5	342.5	804.2	785.6	907.2
Other assets (net)	-19.2	1.7	-6.3	-9.1	-26.0	-20.7	-8.2	-15.4	25.8	-139.5
Other assets (gross), including bank credit, if any, of MSB, NBS, and Indebank ^{1/}	28.0	63.0	24.1	21.2	23.2	31.5	37.6	371.8	410.5	445.2
Other liabilities (gross), including nondeposit liabilities of MSB and NBS ^{1/}	-47.2	-61.3	-30.4	-30.3	-49.2	-52.2	-45.8	-387.2	-384.7	-584.5
Deposits	137.6	219.7	240.0	290.5	307.1	280.6	292.0	294.4	571.9	704.9
Share capital	56.4	58.4	66.5	88.0	109.1	99.2	102.9	172.6	149.3	187.1
Liabilities to banks (MCB only)	1.9	0.3	0.9	2.8	8.9	--	--	68.1	29.9	22.4
Insurance and assurance companies										
Credit to the Government	69.4	60.9	62.9	84.9	61.5	71.1	61.5	93.5	135.9	174.6
Credit to statutory bodies	0.7	--	--	--	--	--	--	--	--	--
Credit to the private sector	78.9	113.9	128.9	140.8	200.2	197.6	200.2	256.5	254.7	362.6
Credit to banks	89.0	55.9	43.9	49.9	73.4	58.7	73.4	53.4	43.1	68.3
Demand deposits	1.7	3.1	2.5	5.6	22.8	-0.8	22.8	-2.8	0.9	2.1
Time and savings deposits	87.3	52.8	41.4	44.3	50.5	59.4	50.5	66.3	42.2	66.2
Other assets	29.3	--	10.4	11.4	39.6	29.9	39.6	47.0	48.5	99.1
Total assets	267.3	242.7	246.1	287.0	347.7	357.2	374.7	460.5	492.1	704.6
Premiums received	27.5	14.1	10.9	12.0	15.0	11.7	15.0	18.0	17.2	30.2
Expenses, commissions, and claims paid	24.1	13.7	8.1	8.8	13.3	9.1	13.3	12.8	10.4	16.9
Premiums (net)	3.4	0.4	2.8	3.2	1.7	2.6	1.7	5.2	6.8	13.3

Sources: Reserve Bank of Malawi, Financial and Economic Review; and other data provided by the Reserve Bank of Malawi.^{1/} Malawi Savings Bank (MSB), New Building Society (NBS), Mercantile Credit Bank (MCB), and Investment and Development Bank (Indebank).

Table 21. Malawi: Balance of Payments, 1991-95

(In millions of U.S. dollars)

	1991	1992	1993	1994	1995 Est.
Current account balance	-190	-224	-225	-119	-47
Trade balance	-140	-315	-310	-182	-133
Exports, f.o.b.	476	397	317	372	421
Of which: Tobacco	350	286	213	257	260
Imports, c.i.f.	-615	-712	-627	-555	-555
Of which: maize	--	-97	-94	-60	-74
Services balance	-77	-70	-65	-66	-61
Interest (net)	-30	-28	-33	-36	-33
Other factor payments	-17	-11	-9	-11	-7
Nonfactor (net)	-30	-31	-23	-20	-22
Unrequited transfers (net)	26	161	150	129	148
Private (net)	-33	14	30	18	-4
Official	59	147	120	111	152
Receipts	63	150	124	114	154
BOP assistance	27	7	50	59	88
Project-related	35	65	12	28	36
Drought-related	--	78	62	28	29
Payments	-3	-3	-4	-3	-2
Capital account balance	199	83	258	99	139
Official medium- and long-term flows	112	87	193	140	98
Disbursements	164	139	234	193	156
Amortization	-53	-52	-41	-53	-57
Changes in net foreign assets of commercial banks (- increase)	5	4	-12	-24	-2
Short-term capital and errors and omissions	82	-9	77	-17	42
Overall balance	9	-142	33	-20	92
Financing	-9	142	-33	20	-92
Change in net official international reserves (- increase)	-9	114	-29	29	-87
Change in arrears	--	28	-4	-9	-16
IMF disbursements	20	--	--	8	12
Memorandum items:					
Current account excluding interest obligations and official transfers	-213	-337	-310	-193	-162
Gross official reserves	141	47	54	36	106
Gross official reserves (in months of imports of goods and nonfactor services)	2.7	0.8	1.0	0.7	2.2
Current account balance (in percent of GDP)					
Including official transfers	-8.7	-12.1	-11.1	-9.2	-3.4
Excluding official transfers	-9.8	-18.1	-15.3	-14.9	-12.0
Overall balance (in percent of GDP)	0.4	-7.6	1.6	-1.6	6.8

Source: Malawian authorities; and staff estimates.

Table 22. Malawi: Composition of Exports

(Values in millions of U.S. dollars)

	1991	1992	1993	1994	1995 Est.
Tobacco					
Value	350.4	285.8	213.0	256.5	260.2
Volume	97.2	97.3	95.7	98.4	99.1
Price (US\$/mt)	3,604.5	2,936.9	2,226.1	2,607.2	2,625.3
Sugar					
Value	28.5	27.1	15.6	26.2	30.9
Volume	53.6	46.0	26.8	40.2	53.6
Price (US\$/lb.)	0.2	0.3	0.3	0.3	0.3
Tea					
Value	37.1	29.6	35.6	29.9	27.5
Volume	41.2	37.1	35.3	38.7	32.8
Price (US\$/kg.)	0.9	0.8	1.0	0.8	0.8
Coffee					
Value	9.2	8.6	7.9	14.6	16.8
Volume	5.4	8.3	5.7	4.7	4.8
Price (US\$/lb.)	0.8	0.5	0.6	1.4	1.6
Groundnuts					
Value	0.7	--	--	--	0.3
Volume	0.9	--	--	--	1.1
Price (US\$/mt)	760.1	--	--	--	231.2
Cotton					
Value	11.9	4.6	2.0	1.7	3.7
Volume	9.1	4.7	1.9	2.5	2.2
Price (US\$/lb.)	0.6	0.4	0.5	0.3	0.8
Rice					
Value	0.8	0.5	--	0.9	1.6
Volume	1.9	0.9	0.1	3.2	4.8
Price (US\$/mt)	432.0	603.9	--	286.2	338.6
Maize					
Value	--	--	--	1.9	5.2
Volume	--	--	--	12.4	25.7
Price (US\$/mt)	--	--	--	155.1	201.6
Pulses					
Value	2.5	1.9	1.4	1.5	8.1
Volume	6.2	5.7	3.5	7.2	26.0
Price (US\$/mt)	397.2	341.8	389.2	206.7	311.0
Other					
Value	22.7	27.8	32.5	31.3	55.0
Total domestic exports, f.o.b.	463.6	386.1	308.0	364.6	409.2
Re-exports	12.0	11.2	9.1	7.9	12.0
Total exports, f.o.b.	475.7	397.3	317.2	372.4	421.2

Source: Malawian Authorities; and staff estimates.

Table 23. Malawi: Tobacco Exports, 1991-95

(Value millions of U.S. dollars; volume in thousands of tons;
and unit value in U.S. dollar per ton)

	1991	1992	1993	1994	1995 Est.
Flue-cured					
Value	88.8	75.5	53.7	57.9	58
Volume	23.7	23.4	22.6	22.2	22.3
Unit value	3,741.0	3,228.6	2,376.7	2,608.1	2,600.9
Burley					
Value	232.6	182.8	142.4	176.0	180.6
Volume	60.2	58.1	63.5	68.0	67.7
Unit value	3,863.4	3,147.1	2,242.9	2,588.2	2,667.7
Flue-cured (Northern Division)					
Value	24.2	23.7	14.7	19.6	19.1
Volume	11.3	14.2	8.6	7.0	8.1
Unit value	2,152.3	1,667.2	1,706.0	2,800.0	2,358.0
Fire-cured (Southern Division)					
Value	0.7	1.1	0.3	0.5	0.4
Volume	0.4	0.6	0.2	0.2	0.2
Unit value	1,829.0	1,865.5	1,622.3	2,500.0	2,000.0
Sun/air-cured					
Value	2.7	1.6	0.9	1.7	1.2
Volume	1.2	0.6	0.4	0.6	0.5
Unit value	2,282.3	2,428.5	2,116.3	2,833.3	2,400.0
Other					
Value	1.5	1.0	0.9	0.8	0.9
Volume	0.5	0.3	0.3	0.4	0.3
Unit value	2,960.5	3,330.6	3,028.2	2,000.0	3,000.0
Total					
Value	350.4	285.8	213.0	256.5	260.2
Volume	97.2	97.3	95.7	98.4	99.1
Unit value	3,604.4	2,936.9	2,226.1	2,607.2	2,625.3

Source: Malawian authorities; and staff estimates.

Table 24. Malawi: Direction of Trade, 1993-95

	Exports			Imports		
	1993	1994	1995 Est.	1993	1994	1995 Est.
(In millions of U.S. dollars)						
DOTS World total	353.6	388.6	397.5	452.1	477.0	533.8
Industrial	240.4	276.1	259.2	151.2	158.8	151.9
France	7.7	17.8	10.7	8.0	6.5	12.8
Germany	36.1	50.1	57.9	23.9	17.6	24.1
Japan	47.7	45.4	44.0	25.7	31.8	14.5
Netherlands	19.9	22.2	24.0	15.5	6.2	5.0
United Kingdom	29.6	35.8	25.4	29.9	32.9	23.0
United States	60.5	57.0	43.3	17.4	20.8	20.4
Other	38.9	47.7	53.8	31.0	43.0	52.1
Developing countries	113.2	112.5	138.3	300.9	318.1	381.9
Africa	82.2	95.3	117.7	263.5	266.4	327.1
Botswana	5.3	6.3	7.8	6.5	7.6	8.7
Mozambique	20.7	24.6	30.3	1.5	1.8	2.2
South Africa	48.8	52.2	64.2	199.6	192.7	237.0
Tanzania	1.1	1.3	1.6	0.7	0.8	1.0
Zambia	1.9	3.8	4.6	5.1	3.5	4.3
Zimbabwe	1.9	2.3	2.8	47.1	56.0	68.9
Other	2.4	4.8	6.4	3.0	4.0	4.9
Other developing countries	31.0	17.1	20.6	37.3	51.7	54.8
(In percent of total)						
DOTS World total	100.0	100.0	100.0	100.0	100.0	100.0
Industrial	68.0	71.1	65.2	33.5	33.3	28.5
France	2.2	4.6	2.7	1.8	1.4	2.4
Germany	10.2	12.9	14.6	5.3	3.7	4.5
Japan	13.5	11.7	11.1	5.7	6.7	2.7
Netherlands	5.6	5.7	6.0	3.4	1.3	0.9
United Kingdom	8.4	9.2	6.4	6.6	6.9	4.3
United States	17.1	14.7	10.9	3.8	4.4	3.8
Other	11.0	12.3	13.5	6.8	9.0	9.8
Developing countries	32.0	28.9	34.8	66.5	66.7	71.5
Africa	23.2	24.5	29.6	58.3	55.9	61.3
Botswana	1.5	1.6	2.0	1.4	1.6	1.6
Mozambique	5.9	6.3	7.6	0.3	0.4	0.4
South Africa	13.8	13.4	16.1	44.2	40.4	44.4
Tanzania	0.3	0.3	0.4	0.1	0.2	0.2
Zambia	0.5	1.0	1.2	1.1	0.7	0.8
Zimbabwe	0.6	0.6	0.7	10.4	11.7	12.9
Other	0.7	1.2	1.6	0.7	0.8	0.9
Other developing countries	8.8	4.4	5.2	8.3	10.8	10.3
Memorandum items:						
Groups of countries (in millions of U.S. dollars)						
European Union	119.3	158.5	152.2	104.4	102.5	109.0
Cross border initiative countries	6.1	8.8	10.9	55.8	63.8	78.5
Preferential trade area countries	26.8	33.4	41.2	57.3	65.6	80.7
Groups of countries (in percent of total)						
European Union	33.7	40.8	38.3	23.1	21.5	20.4
Cross border initiative countries	1.7	2.3	2.7	12.3	13.4	14.7
Preferential trade area countries	7.6	8.6	10.4	12.7	13.8	15.1

Source: IMF Direction of Trade Statistics (DOTS).

Table 25. Malawi: Public Sector External Debt and Debt Service, 1991-95

(In millions of U.S. dollars)

	1991	1992	1993	1994	1995 Est.
Total debt stock	1,643	1,691	1,866	2,033	2,151
Multilateral	1,314	1,370	1,522	1,695	1,803
IMF	115	101	86	112	121
Other multilateral	1,199	1,269	1,436	1,583	1,682
Bilateral	278	254	278	284	305
Paris Club	252	223	238	231	223
Non-Paris Club	26	31	40	53	82
Other	51	68	67	54	43
Total debt service	95.9	99.8	79.3	93.5	95.3
Principal	83.4	66.7	48.1	55.6	59.7
Multilateral	41.2	39.4	28.2	29.9	35.0
IMF	22.0	18.8	7.4	5.8	10.1
Other multilateral	19.2	20.6	20.8	24.1	24.9
Bilateral	32.5	15.8	9.7	11.2	10.9
Paris Club	30.3	14.6	6.4	7.5	8.3
Non-Paris Club	2.2	1.2	3.3	3.6	2.6
Other	9.7	11.4	10.1	14.5	13.8
Interest	12.5	33.2	31.2	37.9	35.6
Multilateral	12.5	21.5	20.8	27.5	26.1
IMF	7.3	2.7	1.7	1.3	1.8
Other multilateral	5.3	18.8	19.1	26.2	24.2
Bilateral	--	8.7	7.6	7.5	7.4
Paris Club	--	8.2	6.6	6.5	6.1
Non-Paris Club	--	0.5	1.0	1.0	1.4
Other	--	3.0	2.9	2.9	2.1
Memorandum items:					
Ratios debt stock to exports ^{1/}					
Total	320.3	405.1	558.8	523.2	498.1
Multilateral	256.2	328.1	455.6	436.3	417.4
IMF	22.5	24.3	25.8	28.9	28.0
Ratios debt service to exports ^{1/}					
Total	18.7	23.9	23.7	24.1	22.1
Multilateral	10.5	14.6	14.7	14.8	14.1
IMF	5.7	5.2	2.7	1.8	2.8
Ratios debt stock to GDP					
Total	75.4	91.0	91.9	157.5	159.3
Multilateral	60.3	73.7	74.9	131.4	133.5
IMF	5.3	5.5	4.2	8.7	9.0
Ratios debt service to GDP					
Total	4.4	5.4	3.9	7.2	7.1
Multilateral	2.5	3.3	2.4	4.4	4.5
IMF	1.3	1.2	0.4	0.6	0.9

Sources: Malawian authorities; and staff estimates.

^{1/} Ratios are to exports of goods and nonfactor services.

Malawi: Summary of Tax System, as of End-December 1995

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. <u>Taxes on net income and profits</u>			
1.1 <u>Taxes on companies, corporations, and enterprises</u> Taxation Act (Cap. 41:01)	<p>Annual tax on net income, including net capital gains realized in cash or otherwise, received by or accrued to domestic companies from sources in Malawi. Income for services rendered in Malawi is deemed to be income accrued from a source in Malawi even though the income is received from a source outside Malawi. Dividend income was "grossed up" in the hands of the taxpayers who were allowed a credit for the company tax paid until 1992, but was subsequently phased out. Nonresident companies are subject to tax on income which accrues or is received from sources in Malawi. A 5 percent branch profits tax also applies to these companies. Unabsorbed losses can be carried forward indefinitely.</p> <p>The taxable income of cooperative societies, clubs, and other recreation organizations is deemed to be an amount equivalent to 6.25 percent of turnover.</p>	<p>The receipts of land and agricultural banks, registered trade unions, non-profit organizations, and religious and educational institutions are exempt, as is the income of certain noncommercial statutory corporations, life insurance companies, and local authorities.</p> <p>Deductions include any expenditure and losses (not of a capital nature) wholly and exclusively incurred in the production of income; bad and doubtful debts; direct expenditure on, and sums contributed for, scientific experiments and research related to the taxpayer's trade; ordinary expenditure on repairs to premises, plant and machinery employed in the business; annuity allowance, or pension paid to a retired former employee; and certain expenditure incurred in establishing a manufacturing business.</p>	<p>38 percent of taxable income.</p> <p>An additional tax of 5 percent of taxable income is charged in the case of companies: (1) which are not incorporated in Malawi, in respect of profits; (2) which are incorporated in Malawi, in respect of profits distributed to nonresident shareholders, provided in both cases that so much of the 5 percent tax is waived as represents the amount by which the tax rate in the country of incorporation, or residence of the shareholders, respectively, is lower than 40 percent.</p>

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates															
1.1 <u>Taxes on companies, corporations, and enterprises</u> Taxation Act (Cap. 41:01) (concluded)	A border tax on dividends, interest income, and other remittances to taxes.	Capital allowances are deductible as follows: an investment allowance of 40 percent on new and unused industrial buildings and plant and machinery, or an initial allowance of 10 percent on plant and farm improvements, 20 percent on machinery and equipment, and 33 1/3 percent on farm fencing. These reduce the basis for calculating the annual allowance of 5 percent on industrial buildings, railway lines and farm improvements, 10 percent on farm fencing, and an unspecified annual allowance for machinery and equipment to be determined on the basis of its useful life and rate of utilization.	15 percent.															
1.2 <u>Taxes on individuals</u>																		
1.21 <u>Income tax</u> Taxation Act (Cap. 41:01)	<p>Applies to individuals accruing or receiving income, in cash or otherwise, from sources in Malawi. In general, the income of a married woman not separated from her husband, and of minor children, is deemed to accrue to the head of the family. Where it is to the taxpayer's advantage, tax is chargeable on the wife's earned income as though she were a single person. Nonresidents are liable to income tax on income which accrues or is received from sources in Malawi, with the exception of dividends from companies incorporated in Malawi, and subject to the provisions of the various double taxation agreements in existence.</p> <p>Assessable income, in cash or otherwise, including inter alia, annuities, amounts received by reason of cessation of employment or withdrawal from a pension fund; employee cash benefits (excluding foreign passages). Taxable income is assessable income less permissible deductions. In 1995/96, a drought levy of 1-3 percent was introduced on taxable income.</p>	<p>Exemption includes the emoluments of the President, certain officers of foreign governments and international organizations, and persons rendering service in Malawi whose salaries are exempt under an agreement. Exemptions also apply to retirement and disability benefits; interest received from the Malawi Post Office Savings Bank, Malawi development bonds, and any public loan issued subject to interest exemption; the income of certain noncommercial statutory corporations, certain foreign service allowances; and scholarships.</p> <p>Deductions include any expenditure wholly and exclusively incurred in the production of income, bad and doubtful debts; pension contributions up to 8 percent of pensionable emoluments or MK 3,000 per annum, whichever is the smaller; and approved charitable contributions over MK 250 up to any amount in any one year of assessment.</p>	<p>The amount of tax payable is calculated according to the rates shown below:</p> <p>Table of Tax on Taxable Income</p> <table><tr><th>Taxable income (thousands of kwacha)</th><th>Rate (percent)</th><th>Drought levy (percent)</th></tr><tr><td>First 3,600</td><td>0</td><td>0</td></tr><tr><td>Next 6,000</td><td>15</td><td>1</td></tr><tr><td>" 26,400</td><td>25</td><td>2</td></tr><tr><td>In excess of 36,000</td><td>35</td><td>3</td></tr></table>	Taxable income (thousands of kwacha)	Rate (percent)	Drought levy (percent)	First 3,600	0	0	Next 6,000	15	1	" 26,400	25	2	In excess of 36,000	35	3
Taxable income (thousands of kwacha)	Rate (percent)	Drought levy (percent)																
First 3,600	0	0																
Next 6,000	15	1																
" 26,400	25	2																
In excess of 36,000	35	3																

Malawi: Summary of Tax System, as of End-December 1995 (continued)

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates																		
1.21 <u>Income tax</u> Taxation Act (Cap. 41:01) (continued)	Employers are required to deduct tax under a PAYE scheme according to prescribed deduction tables in respect of wages and salaries exceeding MK 3,600 per annum.	Personal allowances are now no longer deductible from taxable income.																			
1.22 <u>Fringe benefits: tax</u>	Employers, both corporate and individuals who provide benefits-in-kind such as accommodation, automobiles, etc., are chargeable to tax on the value of the benefits provided. The value is determined either by reference to the cost to the employer of providing the benefit or the value is determined by reference to guidelines issued by the Commissioner.	Exempt income includes war disability and war widows' pensions; old age pensions paid out of public funds; and disability benefits.	35 percent.																		
1.3 <u>Taxes on property</u> 1.31 <u>Death duties</u> Estate Duty (Cap. 43:02) as amended	Duty is levied on the principal value of all property belonging to the deceased at his death. The duty is payable by the executor of the deceased; and beneficiary of the estate is also liable up to the amount of his interest in the estate.	Estates valued at less than MK 30,000 are effectively exempt. There is a provision for reduced duty in the case of quick succession to land or a business.	<table><tr><th>Principal value of estate</th><th>Rate in %</th></tr><tr><td>0- 30,000</td><td>0</td></tr><tr><td>30,001- 40,000</td><td>4</td></tr><tr><td>40,001- 80,000</td><td>5</td></tr><tr><td>80,001-140,000</td><td>6</td></tr><tr><td>140,001-200,000</td><td>7</td></tr><tr><td>200,001-400,000</td><td>8</td></tr><tr><td>400,001-600,000</td><td>9</td></tr><tr><td>600,001 and above</td><td>10</td></tr></table>	Principal value of estate	Rate in %	0- 30,000	0	30,001- 40,000	4	40,001- 80,000	5	80,001-140,000	6	140,001-200,000	7	200,001-400,000	8	400,001-600,000	9	600,001 and above	10
Principal value of estate	Rate in %																				
0- 30,000	0																				
30,001- 40,000	4																				
40,001- 80,000	5																				
80,001-140,000	6																				
140,001-200,000	7																				
200,001-400,000	8																				
400,001-600,000	9																				
600,001 and above	10																				
2. <u>Taxes on goods and services</u>																					
2.1 <u>Surtax</u>	Levied on imports (of mainly consumer goods) and on domestic manufactures. The tax is ad valorem and is payable by the importer or the manufacturer of taxable goods.	Exemptions include basic foodstuffs such as live animals, animal products, vegetable products including cereals, and vegetable oils. Also exempt are certain industrial raw materials and all goods which attract a customs tariff of less than 10 percent as applied to imports from "ACP states" within the meaning of the Lome convention, GATT, EEC, and Commonwealth countries. Goods so exempt include most agricultural and industrial machinery and equipment, intermediate goods, and construction materials.	<p>The following rates are applied to the taxable value:</p> <table><tr><th></th><th>Percent</th></tr><tr><td>For domestic products</td><td>20</td></tr><tr><td>For imports</td><td></td></tr><tr><td>Capital</td><td>10</td></tr><tr><td>Other</td><td>20</td></tr></table>		Percent	For domestic products	20	For imports		Capital	10	Other	20								
	Percent																				
For domestic products	20																				
For imports																					
Capital	10																				
Other	20																				

Malawi: Summary of Tax System, as of End-December 1995 (continued)

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates																											
2.1 <u>Surtax (concluded)</u>			(including petroleum, paraffin, diesel). The taxable value is the national wholesale selling price. For domestic manufacturers, it is the normal ex-factory selling price which includes any duty payable other than surtax and the cost of ordinary packaging. For imports, it is 100 percent of the sum of the value for customs duty purposes plus the customs duty payable.																											
2.2 <u>Selective excises on goods</u> Customs and Excise Act (Cap. 42:01) as amended.	Excise duties are levied at ad valorem rates on selected goods manufactured or produced in Malawi, including cigarettes and alcoholic drinks. Excise duties are also levied on imported motor vehicles (passenger cars).		<table><tr><th>Excisable good</th><th>Unit</th><th>Tax (percent)</th></tr><tr><td>Opeque beer</td><td></td><td>10</td></tr><tr><td>Beer (excluding Chibuku)</td><td></td><td>60</td></tr><tr><td>Portable spirits</td><td></td><td>60</td></tr><tr><td>Low to medium-priced cigarettes</td><td></td><td>60</td></tr><tr><td>Other tobacco products</td><td></td><td>60</td></tr><tr><td>Motor vehicles (passenger cars)</td><td></td><td></td></tr><tr><td> a. Up to 2 liters</td><td></td><td>10</td></tr><tr><td> b. 2 liters and above</td><td></td><td>30</td></tr></table>	Excisable good	Unit	Tax (percent)	Opeque beer		10	Beer (excluding Chibuku)		60	Portable spirits		60	Low to medium-priced cigarettes		60	Other tobacco products		60	Motor vehicles (passenger cars)			a. Up to 2 liters		10	b. 2 liters and above		30
Excisable good	Unit	Tax (percent)																												
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Motor vehicles (passenger cars)																														
a. Up to 2 liters		10																												
b. 2 liters and above		30																												
2.3 <u>Selective excises on services</u>	Levy on expenditure incurred by individuals in hotels and registered restaurants.	None.	10 percent.																											
	Airport tax.	None.	MK 20 per Malawian citizen. US\$20 per non-Malawian.																											
2.4 <u>Withholding tax</u>	Tax on receipts from rent of properties, royalties, fees and commission, and supplies to institutions under tender on any other arrangements with a value of K 500 or more at any one single time.	None.	5-15 percent.																											

Malawi: Summary of Tax System, as of End-December 1995 (continued)

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
2.5 <u>Taxes on use of goods or property</u>			
2.5.1 <u>Motor vehicle taxes</u>	Owners of motor vehicles are subject to several types of taxes including registration fees, licensing fees, and road service permit fees. The taxes are levied at specific rates that vary according to type of vehicle and weight.	None.	<p><u>Registration fees</u> (kwacha)</p> <p>Commercial vehicles 60.00</p> <p>Private cars and public service vehicles 45.00</p> <p>Motorcycles 30.00</p> <p><u>Licensing fees</u> (kwacha)</p> <p>Vehicles</p> <p>Commercial (per 50 kg net weight) 6.00</p> <p>Goods</p> <p>Private passenger and public service</p> <p>(a) for each 50 kg net weight 7.00</p> <p>(b) for each licensed passenger 5.00</p> <p><u>Road service permit fees</u> (kwacha)</p> <p>Annual fees</p> <p>Public service vehicles 75.00</p> <p>Heavy goods vehicles 75.00</p> <p>Light goods vehicles 40.00</p> <p>Buses 75.00</p> <p>Short-term permits</p> <p>Vehicles registered in Malawi</p> <p>Per month 10.00</p> <p>Per two months 20.00</p> <p>Per three months 30.00</p> <p>Foreign registered (per month) US\$50.00</p>

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates															
3. <u>Taxes on international transactions</u>																		
3.1 <u>Import duties</u>	Malawi maintains a two-column tariff schedule based on the Customs Cooperation Council Nomenclature (CCCN). This provides for a preferential rate of duty for import from "ACP States" within the meaning of the Lome Convention, the Commonwealth, GATT, and EEC countries; and a most-favored-nation rate for the rest of the world. Specific and ad valorem customs duties are imposed on all goods imported into Malawi for home consumption. With respect to ad valorem import duties, the BDV applies.	The law provides for suspensions, rebates, remissions, and refunds of duty in certain circumstances, and general exemptions from duty including, inter alia, goods imported for the use of the President and goods entered for transit or temporary importation or exportation. Manufacturers are granted rebates on imported materials required for further processing in Malawi; for most of these goods, a low rate of duty of 10 percent is generally applicable.	Ad valorem rates of customs duties may be summarized as follows: (1) low rates of, e.g., 10 and 25 percent applying to necessities and seminecessities; (2) intermediate rates of, e.g., 35 and 40 percent; (3) high rate of, e.g., 45 percent. Some commodities, mainly petroleum products, are subject to a specific import duty, e.g., <table><tr><td>Dutiable</td><td></td><td></td></tr><tr><td><u>good</u></td><td><u>Unit</u></td><td><u>Rate</u></td></tr><tr><td>Petrol</td><td>liter</td><td>0.165</td></tr><tr><td>Diesel</td><td>liter</td><td>0.12</td></tr><tr><td>Paraffin</td><td>liter</td><td>0.08</td></tr></table>	Dutiable			<u>good</u>	<u>Unit</u>	<u>Rate</u>	Petrol	liter	0.165	Diesel	liter	0.12	Paraffin	liter	0.08
Dutiable																		
<u>good</u>	<u>Unit</u>	<u>Rate</u>																
Petrol	liter	0.165																
Diesel	liter	0.12																
Paraffin	liter	0.08																
3.2 <u>Export levies</u>	A temporary export tax is levied on all tobacco, tea, and sugar exports.	None	10 percent.															
<u>Other taxes</u>	Duty is levied on a range of instruments including agreements; bills of exchange; bonds; leases and licenses; mortgages; insurance policies.	General exemptions include: (1) Any instrument on which stamp duty would be payable by the Government. (2) Any pension warrant issued by any government. (3) Any will or other testamentary disposition. (4) Instruments relating to embassies/diplomatic missions whose countries have reciprocal/similar exemption arrangements granted to Malawi.	Rates of duty vary depending on the nature of the instrument, the matter to which it relates, and the value thereof.															

Source: Ministry of Finance.